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From: Joe Mierendorf, Sue Cobb and Mark Reed

RE: **Cash Flow Issues***

A comment we frequently hear in our practice is this: "Business is better than ever; my profits are increasing, but my cash flow is tighter than it was when I started my business. What's going on?"

Contrary to popular belief, more revenue doesn't always equal more cash for a business. This is especially true during steep increases in sales. Inventory demands and increased labor costs tie up cash. In many cases vendors need to be paid to keep favorable terms before receivables are collected. Employees generally will be paid before receivables are collected. Below is a list of ideas that may assist in better cash flow management.

1. **Analyze your aged receivables on a regular basis.** You must know when cash is expected to flow into your company so that you can properly schedule the payment of your bills. This will also help identify potential problem customers that you may want to put on a cash-only basis.
2. **Run credit checks on larger accounts.** This tactic will help identify potential problem customers before they become a drag on your cash flow.
3. **Pay vendors in a timely manner.** This strategy will alleviate late fees and in many cases allow for early payment discounts. Many discounts run in the 2% area. In addition, you may be able to work on payment terms with your vendors that fit your cash inflow cycle.
4. **Analyze your bank statement on a monthly basis** to see if monthly charges are cutting into your cash flow. Most banks have business banking programs with sweep accounts that will effectively reduce or even eliminate monthly fees.
5. **Shorten your billing cycle.** The sooner you bill your customers, the quicker your collection cycle begins. The benefits of a shorter billing cycle include line of credit interest payment reductions, interest earned, vendor discounts given, and late fees eliminated.
6. **Watch your inventory turnover.** Convert slow moving inventory into cash.

If you or someone you know would like some assistance in improving cash flow, please give us a call. Also, please help us build a network of successful businesses and share this information with others who could benefit from it, or give us their name so that we can contact them.

*Other memos include:

Job Cost Identification
QuickBooks® and Peachtree® Training
Buying and Selling Real Estate

Exit Strategies
Business Valuation
Detecting Fraud