

Talking Tax

Manage Late Payments

In the current economic climate business proprietors will need to continue to pay particular attention to cashflow.

Late payment is a major factor in poor cashflow which in itself is one of the main reasons for business failures. For small businesses maintaining a good cashflow is essential to success. A recent survey highlighted that 75% of SMEs have been hit by late payments over the last year.

I set out some useful tips to help small businesses maintain a healthy cashflow:

- ◆ Carry out a credit check. Conduct a credit check against new customers and set realistic credit limits;
- ◆ Clarity – set out your terms and conditions and tell your customers. Clearly set out terms of trade early on and include them with order confirmation, invoices and other relevant paperwork.
- ◆ Avoid mistakes – check your sales invoices as rectifying mistakes can lead to delayed payment. Address invoices to the proper department and include details of the job, purchase order, the correct amount, your business terms and the date.
- ◆ Invoice promptly – issue invoices on completion of the work and follow-up with a 'phone call to check the invoice has arrived and there are no queries.
- ◆ Credit Control – adopt a follow-up system. Issue statements and account rendereds and 'phone your customers if they are late in paying.
- ◆ Be aware – if your customers are acting differently, avoiding you or sending post-dated cheques. This could signal problems ahead.
- ◆ Manage stock – plan ahead and do not hold too much stock and consider more frequent deliveries.
- ◆ Negotiate with suppliers – look at longer credit terms and volume discounts, maybe obtain better prices by agreeing to pay more quickly than the supplier's normal terms.
- ◆ Communicate – with your bank, your suppliers, your customers and your accountant. Keep people in the loop and tackle issues head-on.
- ◆ Consider approaching H M Revenue & Customs for time to pay under the Business Payment Support Service in relation to tax liabilities.
- ◆ Take particular care in dealing with Government Departments as it would appear the potential savings have been identified by lengthening credit lines.
- ◆ Cover the options – consider alternative funding for business growth such as factoring and flexible sources of financing.
- ◆ Prepare realistic cashflow projections – this exercise can help a business foresee and prepare for potential shortfalls.

The risks are especially greater for expanding companies as the combination of delayed billing at the same time as an accumulation in stock could result in their being insufficient cash to pay suppliers and employees.

Remember - Cash is King

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