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### Are you tracking your cash flow?

Cash flow problems pose a bigger threat to the longevity of your business than your competition, poor hiring decisions or changing market conditions.

According to recent statistics, 82% of small businesses fail due to cash flow problems.

82%!! Have I got your attention?

Most small business owners have heard of the cash flow statement. Most however, do not make use of it on a regular basis to gauge the ongoing health of their operation.

In case you've never been properly introduced to a cash flow statement, here is a sample.

**Cash Flow Statement**  
Diana's Goat Grooming  
Month Ended January 31, 2019

<b>Cash Flow from Operations</b>	
Net income	\$60,000
<i>Additions to Cash</i>	
Depreciation	\$20,000
Increase in Accounts Payable	\$10,000
<i>Subtractions from Cash</i>	
Increase in Accounts Receivable	(\$20,000)
Increase in inventory	(\$30,000)
<u>Net Cash from Operations</u>	<u>\$40,000</u>
<b>Cash Flow from Investing</b>	
Purchase of equipment	(\$5,000)
<b>Cash Flow from Financing</b>	
Notes payable	\$7,500
<u>Cash Flow for Month Ended December 31, 2018</u>	<u>\$42,500</u>



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'Cash flow' might be the #1 risk for business owners but it is simply a blanket term to summarize several underlying problems that your business could be facing.

### #1 - Do you have a budget?

From the sample above, you should have a pretty good understanding of what impacts your cash flow. Each business will have some minor differences, but the overarching theme will be the same.

The use of a budget ties into the first line item – net income. Simply put, this is the net of your revenues less expenses. If you're spending more than you bring in, your cash flow is going to suck.

Of course, this can be offset with debt or equity financing in the short term, but this isn't a sustainable business approach.

If you don't have a simple budget in place that helps you save in the good times and prepares you for the eventual bad times, it's time to get one in place.

### #2 – Are you protecting your credit?

Beyond plugging leaky cash flows with debt financing, companies often take up the practice of delaying bill payments when they are tight on cash.

Pushing payment terms from 30 to 90 days or waiting to pay vendors to the last possible minute is not a good strategy. This is especially true of amounts owing to CRA.

Consistent delays in clearing your payables will ultimately lead to vendors contacting collection agencies and/or suspending their services to you. Credit and reputational hits are not good for business.

Avoid this situation at all costs. If you are in this position, make sure you reach out and be honest with your vendors to calm the cash flow waters and get yourself some extra time to pay.



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### #3 – When was the last time you counted inventory?

I know what you're going to say. I provide services. I don't sell anything. This doesn't apply to me. Well, think again.

Even though you might not be in the business of selling goods, you will mostly likely carry inventory of some kind. Office supplies, small tools, consumables, and others can be poorly managed and result in added costs to any business.

If you are in the business of selling goods, tracking your inventory is even more important. This should include regular counts, discounting & selling items before they become obsolete, keeping inventory organized to reduce labour charges and frustrated customers.

If you aren't tracking your inventory, then who is?

### #4 – Where are your reserves?

As we have seen in the past couple of years, your business can be shut down at a moment's notice due to government policy. Do you have cash on hand to survive for 3 months? Six months?

Given the rising inflation and interest rates in 2022, it is important to be prepared for a recession and the potential for a soft economy.

Now would be a good time to speak with your accountant if you have plans for expansion or were considering purchasing new equipment. Do you have confidence in your future cash flows to float these plans given market conditions?

A little planning can go a long way and can be the difference between you becoming a cash flow statistic or hitting a home run in the downturn.



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#### #5 – Who is your accountant?

Cash flow problems are typically the culmination of a few issues that build over time.

Having a proactive accountant on your team is an asset. With that said, I can produce a cash flow statement for your business once a year in conjunction with other yearend procedures, but this won't tell you much. Cash flow is an ongoing concern not solved with the review of one annual cash flow report.

Instead, get your records into a bookkeeper (let me know if you need the contact info of a great one) on a regular basis and then we can review your monthly or quarterly cash flow reports.

Proactive planning will help you identify issues before they get out of hand and allow us to take steps to mitigate and reverse the issue.

#### Conclusion

You've heard the quote from Benjamin Franklin, "Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, **nothing is certain except death and taxes.**"

Cash flow issues are almost the same. Fortunately, you can take steps to mitigate potential issues and set your business on a strong foundation for future growth if you are willing to take a proactive approach.

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