
Financial Foundations

Taking the Financial Pulse of Your Business As the end of the year approaches, now is a good time to do a quick check up.

By Michelle Long

Are you so busy with the day-to-day operations and management of your business that it's hard to set aside a few hours for planning and evaluating its financial health?

Now is the perfect time to review the financial health of your business and make plans to improve performance and profitability. You hear a lot about year-end tax strategies, but here are some other areas to review.

Consider Upcoming Requirements

Is cash flow sufficient to cover normal expenses and year-end expenditures, or do you need to build up cash reserves to cover anticipated year-end expenses? Will you need money to fund a retirement plan? Do you need to pay bonuses? What about year-end taxes? If funds are available, should you purchase some fixed assets or equipment before the end of the year?

Improve Cash Flow

If you need to improve cash flow, take a look at sales and accounts receivable. Have customers been invoiced or billed for all sales? Look at accounts receivable and determine which customers owe money. Have a system for sending out reminder invoices or letters to customers who haven't paid within an acceptable amount of time. For some customers, a phone call may be more appropriate. The odds of collecting go down the longer a debt is outstanding, so stay on top of collections.

Evaluate Customers

The reality is that there are some customers or clients who are better than others. The best customers pay promptly, are easy to work with and may even provide referrals for you. Then there are some customers who are always late in paying, are never satisfied, always are complaining and are just not pleasant to do business with. Fire the bad customers! It is difficult to realize, but there are some customers you are better off without. This allows you more time and energy for the good customers and finding more customers.

Evaluate Suppliers, Vendors and Subcontractors

Are suppliers or vendors meeting their obligations? Are they on time, of sufficient quality, reliable and dependable? Can you renegotiate terms or prices? This also should include evaluating your insurance for adequate coverage, deductibles and possible savings for being claim-free. Can you renegotiate better terms on any leases, lines of credits, bank loans, or credit cards? The longer you are in business, the more you can develop a good credit history and working relationship with suppliers and vendors. Each year, try to renegotiate for better terms or prices.

Evaluate Internal Bookkeeping or Accounting

Does your accounting system provide reliable and timely financial reports? Can you get reports and information quickly and easily? Monitor financial results regularly so that you can make decisions and address problems quickly. If the system doesn't meet your needs, now is the perfect time to start planning to implement a new system for next year. Investing in a good accounting system will help provide the information you need to make better, more informed decisions.

Evaluate Products or Services

If you sell products or have inventory, which items are not selling well? Don't tie money up in inventory that is slow-moving or not profitable. Sell and stock the items customers want and actually buy, not what you think they want.

If you provide services, which services are the most profitable and frequent? Focus efforts and marketing toward those services that customers want based on sales for the past year.

Do prices or fees provide sufficient profits after all expenses, including taxes? If you're self-employed, don't forget to consider the self-employment tax and personal income taxes. If you are going to raise prices or fees, do you need to notify customers or clients in advance?

Begin Budgeting

Using the current year monthly income statement, begin budgeting and planning for next year. How are you going to increase sales? Will you add new products or services? If so, when? Will you need to hire additional staff or give raises to the current employees? Will you need new equipment or assets? Where can you reduce expenses? What are your marketing plans and what will it cost?

Preparing a monthly budget will help you plan ahead and make decisions based on the plan. Budgets help plan expenditures, such as hiring an employee or purchasing equipment, so that you can ensure adequate cash flow.

Budgets also help control expenditures and keep expenses under control. Next year, look at reports of actual vs. budget to monitor results and make adjustments in a timely manner to stay on track.

Before the year-end madness arrives is the perfect time to evaluate the financial health of your business. Make plans now to help improve the financial performance and profitability of your business next year.

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