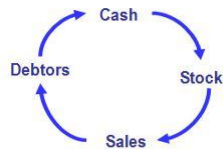


## CASH – THE LIFE BLOOD OF YOUR BUSINESS

The importance of cash to a business can easily be compared to the importance of air to a human . cut off the supply and the end is imminent. In a typical business the cash cycle looks something like this:



In the above model you start your business by using cash to purchase stock. You then sell some stock converting your stock into debtors. Once you are paid by your debtors the cash returns to you and the cycle begins again. The areas that typically cause cash flow problems are the following:

- **Carrying Too Much Stock** . ideally a business should carry no more stock than it needs in order to maximize sales. Slow moving or obsolete stock needs to be liquidated and turned back into cash. Monitor stock turn rates and create sound relationships with clients. There is a proven link between high stock levels and an increase in both stock theft and damage.
- **Inadequate Debtors Control** . take a look at the way you manage debtors and where the payment process can be tightened up. Monitor your debtors days and implement a robust collection system. Late payers need to be brought under control now to minimize the impact on your cash flow. In this market customers will take every opportunity to delay payment and those businesses without tight credit controls are invariably the last to be paid.
- **Capital Expenditure** . be wary of paying cash for any significant capital items unless you have robust cash flow forecasts in place that show the purchase can safely be done. Many businesses run into trouble because they used their cash to fund asset purchases and then later couldn't pay their tax bills or their suppliers.
- **Drawings** . as a business owner, how much money are you taking out of the business on a monthly basis? Many business owners are shocked to see the annual level of drawings that they take and are unaware of the pressure that this can put a business under.

One of the simplest and most valuable business tools you can have is some solid cash flow projections. For some businesses they find that they can operate on projections that show a month end cash position only while others need weekly or even daily cash projections to keep things on track. Projections let you see potential cash flow problems in advance and deal with them before you reach a crisis point.

### How can HWI Limited help?

HWI Limited can be proactive in helping businesses successfully plan for and manage cash flow forecasts for the present, and therefore the future.

## Welcome to the HWI Newsletter Issue August 2011

Reminders for your Diary

<u>September</u>	<u>Due</u>
GST periods ended	
31 August	28/09

LTC Elections for transitioning LAQC	30/09
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Student Loan repayments from o/seas borrowers	30/09
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<u>October</u>	<u>Due</u>
FBT 2 <sup>nd</sup> Quarter	20/10

GST periods ended	
30 September	28/10

Prov Tax 3 <sup>rd</sup> Instalment	28/10
<i>Ratio Method Only</i>	

Prov Tax 1 <sup>st</sup> Instalment	28/10
<i>Six monthly GST Reg.</i>	

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