



# MANAGING CASH FLOW

Moore Business Advisory



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As a business owner, managing your cash flow has always been important. With the onset of the COVID-19 crisis, managing your cash flow can mean the difference between survival or failure.

**Managing your cash resources will allow you to continue to operate – pay wages, buy supplies and cover your own personal financial requirements.**

## WHERE TO START?

Do you have an accurate record of the current financial position of your business? There are plenty of cloud based accounting software packages (e.g., Xero, Quickbooks to name just two of the most popular) which will allow you to keep track of your business transactions. These packages are connected to your bank accounts, allowing you to manage your cash flow in real time.

Accurate record keeping will also allow you to see who owes you money and who you owe money to.

## CASH FLOW FORECASTING

Once you know what your financial position is, you can start looking to the future. Start with what bills are already owed or owing and your known commitments such as weekly or monthly payroll costs, rent, utilities and other regular commitments. Then add what you expect from future sales and purchases over the next period (starting from the next month onwards for at least 12 months).

Once you have this forecast in place, you will be able to see at a glance when the business might run low on cash giving you time to put a plan in place to alleviate the problem.

## SOME KEY POINTS

Although this may sound obvious, it is good to remind yourself on some key tips in the management of your customers and suppliers.

### Customers

- Check the credit rating of customers, especially the larger ones and have credit limits in place which are reviewed periodically
- Agree terms of payment before starting any work
- Raise invoices on a timely basis
- Make sure you are monitoring customer payments and follow up outstanding invoices promptly
- In the current climate, some customers might find it difficult to pay. Agree a payment plan and ensure they stick to it.
- If all else fails, use legal letters and consider court proceedings.

## Suppliers

- Agree payment terms with your suppliers and stick to them
- If you have a history as a good payer, but are struggling in these difficult times, ask for a payment plan. But ensure it is one you can stick to.
- Carefully think about planned capital expenditure. Can it be deferred?

## HOW TO IMPROVE YOUR CASH FLOW

### Government Schemes

The government is backing loans to small businesses to help them manage their cash flow over this difficult period.

#### Enterprise Financing Scheme (EFS)

Having the right access to financing is critical in helping enterprises in Singapore realise their growth ambitions.

##### (i) Trade Loan

Finance trade needs, including:

- Inventory / stock financing
- Structured pre-delivery working capital (revolving working capital)
- Factoring (with recourse) / bill of invoice / AR discounting
- Overseas working capital loan

Following the Solidarity Budget 2020, the maximum loan quantum was raised from S\$5 million to S\$10 million to help enterprises with their trade financing needs. The risk-share was also increased to 90% (from 50% and 70% for young companies) for new applications initiated from 8 April 2020 until 31 March 2021.

##### (ii) SME Working Capital

To support SMEs with their working capital needs, the Enterprise Financing Scheme – SME Working Capital Loan (EFS-WCL) was enhanced at the Solidarity Budget 2020. The maximum loan quantum was raised from \$300,000 to \$1 million and the risk-share was also increased to 90% (from 50% and 70% for young companies) for new applications initiated from 8 April 2020 until 31 March 2021.

Under the Enhanced EFS-WCL, eligible enterprises may apply for up to 1-year deferral of principal repayment to help manage their debt, subject to assessment by the PFIs.

##### Temporary Bridging Loan Programme

As part of the new relief assistance for businesses impacted by the COVID-19 outbreak, the Temporary Bridging Loan Programme (TBLP) provides access to working capital for business to bridge short-term cashflow gaps in their daily operations.

Eligible enterprises may borrow up to \$5 million TBLP, with the interest rate capped at 5% p.a., from Participating Financial Institutions (PFIs). The Government will provide 90% risk-share on these loans for new applications initiated from 8 April until 31 March 2021.

##### Loan Insurance Scheme (LIS)

The Loan Insurance Scheme (LIS) is a government assisted scheme jointly administered by Enterprise Singapore to help enterprises secure short-term trade financing loans from Participating Financial Institutions (PFI).

Loans are insured by commercial insurers which co-share loan default with the PFI in the event of enterprise insolvency. Following the Supplementary Budget 2020, support for the LIS insurance premium will be increased to 80% (from 50%) until 31 March 2021.

Enterprises can apply for the LIS to secure short-term trade financing for the purpose of:

- Inventory/ stock financing facility
- Structured pre-delivery working capital
- Factoring/ bill or invoice or accounts receivable discounting with recourse
- Overseas Working Capital Loan
- Banker's Guarantee

## **Invoice Financing or Asset Based Lending (IFABL)**

IFABL will allow your business to access finance against your debtors, as well as against a wider range of business assets. This could be an effective way of freeing up cash.

## **Traditional Banking**

If you go to your Bank for a loan or overdraft, you will almost certainly be asked for a personal guarantee or asked to provide security against the loan. Make sure you understand the implications of the interest to be charged and any bank covenants to be included.

It is also good to be prepared. Make sure you have a sound business plan, which incorporates the cash flow forecast we referred to above.



## **CASH FLOW TIPS**

1. Know your cash position at all times and what it is expected to be at least for the next three months
2. Keep your cash flow forecast up to date. A rolling forecast should be prepared monthly as events change
3. Scrutinise customer debts carefully. Make sure customers outside their credit terms are followed up closely.
4. Prepare management accounts at least monthly (balance sheet and profit and loss account as well as cash flow) so you know where you are at financially.
5. If you are going to need finance, prepare well in advance. Make sure you have all the information you need at hand to make it easier for the decision maker to arrive at a quick decision.

**If you need any advice on managing your cash flow, or require assistance with your loan application, please contact us.**

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