




Cash is King

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Cash is King!

Is it?

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Common Misconceptions

- Do not confuse profits with cash
- Profitable as well as loss-making businesses fail through poor cash control
- Even though interest rates are low around the world
 - Most businesses do not want to **borrow** more
 - Most banks don't want to **lend** more
 - Clients **will** take longer to pay you
- To control cash, you must control both Work in Progress (WIP) and Debtors/Receivables

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Problems

- The biggest problem lies with the partners
 - Most partners enjoy the work, but discussing money is seen to interfere with their client relationship
 - Partners haven't got the time!
 - Old fashioned outlook – a profession is not a business
 - Too many individual exceptions are rationalised too frequently
 - Client work takes priority
 - Too many partners delegate critical parts of the process

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Golden Rules

- Be clear on how you will charge; when you will charge; and when you expect to be paid
- Bill at the appropriate time i.e. while the client remembers what you have done and, more importantly, values what you have done
- Control the processes, don't just assume partners (particularly!) will follow agreed procedures
- Performance in this area should have financial consequences for the partners

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Basis of Charging

Be clear at the outset

- Fixed price
- Time basis
- Event billing
- Value billing

Examples

Quotes for audit or tax returns, outsourcing work, conveyancing

Monthly, quarterly, annually

Company sale or acquisition, stages of an audit

Company sale or acquisition

Whatever basis you chose, monitor it

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Control of WIP

- Must bill regularly:
 - Quarterly
 - Monthly
 - On an event
 - In advance
- Managing partner (or a partner) should be responsible for ensuring everyone follows agreed procedures
 - e.g. We bill quarterly
 - Everyone must bill out (in a quarterly billing month) at least an amount equal to the opening WIP at the start of the month

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Fixed Price Billing

- Becoming increasingly common
- Be clear are you selling quality v. quantity?
- Be clear on payment terms
- Increasingly common for audits and tax compliance; already common for outsourcing work
- If you are on a fixed price, try to get paid at least partly in advance
 - e.g. audits
 - 30% on planning
 - 40% on day audit starts
 - 30% on completion

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Monthly Billing

- Never allow partners only to bill once a year – not practical
- Effect on bank balance
- Not suitable for all clients
- Partner resistance

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Debtors/Receivables

- Get money in advance wherever possible or desirable
- Have clear procedures for chasing overdue debts and start chasing as soon as overdue, do not wait another month or two – you are running a business and its time you don't get back
- Make sure you have controllable procedures if clients query a bill as part of the delay in paying you
- Interest on overdue amounts
- Premium Credit

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Golden Rules

- Employ a good credit controller
- Always follow up
 - Client promises to pay by end of week – phone if they don't
 - You finally talk about legal action if not paid by
- Make partners responsible – report at least monthly and financial consequences
- Understand client payment systems (e.g. end of month bought ledger runs; multiple signatories required such as trustees)

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And Finally

Key Issues

- Partner to control procedures overall
- Good credit controller

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