

Beware of the domino effect

With the Insolvency Service announcing a substantial fall in the number of company liquidations compared with the same period last year (19.1%) businesses might be forgiven for thinking that the economy is finally beginning to stabilise.

But experts are predicting a fresh slew of insolvencies in the coming months as a result of the cutbacks in public sector expenditure. Judging by the growing number of profit warnings, companies that have become dependent upon trading with the public sector are already starting to feel the impact as Government departments seek to achieve cuts of up to 40% in expenditure. And the situation is expected to get worse after the spending review this autumn.

Domino effect

It is important to realise that it is not just companies dealing directly with the public sector that are at risk here, but any business that relies upon such companies as suppliers or major customers. As we have seen so many times in the past, company failures can produce a domino effect, and it is often smaller businesses that bear the brunt.

Don't wait until it is too late

We would encourage any business that could potentially be affected not to leave it until it is too late but review their situation now and take whatever steps they can to mitigate against potential failures in their supply chain or customer base.

Here are some actions you might consider:

- Keep an eye on major customers or suppliers that might have significant exposure to public sector cuts – as with anything, forewarned is forearmed
- Try to reduce your dependency on potentially vulnerable companies by diversifying your customer base and identifying alternative suppliers
- Review your credit management policy with respect to potentially vulnerable customers and monitor its implementation closely
- Ensure you have a financial plan to maintain business continuity in the event of major customers defaulting on their payments
- As always, if you need help or advice in any of these areas don't hesitate to give us a call.

Keeping the cash flowing

There's no getting away from it, cashflow is the very lifeblood of a business. And yet according to recent research by IGF, over a third of small businesses have had cashflow problems in the past two years, many of them experiencing problems so severe that their very survival was at stake.

The three main causes cited were:

- Late payment by debtors
- Economic factors beyond their control
- Fall in revenue

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So what can be done to improve cashflow?

Here are six tips to keep the cash flowing:

Make sure you have adequate management accounts, including cashflow forecasts, budgets, and debtor and creditor records. A surprising number of businesses have found themselves in financial difficulties because they did not have up-to-date or accurate information. And by the time they found out a crisis had arisen or it was too late. Cashflow management is about watching the road ahead, not looking in the rear-view mirror!

Bill promptly, clearly, and accurately! Cash can be tied up not only by delaying raising an invoice but also by having to deal with customer queries and rebilling. For all businesses, time is money, but this is especially true for small businesses!

Know your customers. Understand their payment cycles and time your invoices accordingly. Identify whom you need to contact in accounts to expedite payment and develop a good working relationship with them! Oh, and run appropriate checks on new customers before extending lines of credit.

Avoid overtrading. Don't continue accepting and trying to fulfil orders if you don't have the cash to do so.

Keep a close eye on your own purchases and eliminate avoidable expenditure. Whenever possible, spread payment rather than paying a lump sum.

Manage your stock. Considerable amounts of cash can be tied up in slow moving or surplus stock. Make sure you have an efficient stock management system and keep your stock levels well trimmed.

Do you have adequate internal controls?

Recent research by Graydon UK shows that nearly a third of UK businesses have been targeted by fraudsters in the last eighteen months, and that a fifth believe the problem of commercial fraud is getting worse.

One thing is clear, fraud is not going to go away and all businesses regardless of size need to put adequate anti fraud measures in place.

A good place to start is to review your internal controls. This is an area in which we have considerable experience. Call us if you need help or advice.

Electronic filing of all VAT returns to become compulsory

Following the successful introduction of online VAT filing for newly registered businesses and businesses with a turnover exceeding £100,000, HMRC have now given notice that from 2012 all businesses will be required to file their VAT returns electronically. We will continue to keep you informed as more details emerge. In the meantime if you need help or advice on your VAT return or any other matter relating to HMRC, do give us a call.

How tax efficient is your remuneration strategy?

With the tax and NI regimes undergoing such frequent changes, you would be well advised to review your remuneration strategies on a regular basis to ensure you have the optimum mix of salary, bonuses, dividends and benefits. Why not arrange a check up with us? You might be surprised what you discover.