



Business Growth Accountants

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Time to Pay scheme – small companies need to sort cash flow problems out

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An accountancy firm is warning small companies that they cannot rely on the Government's Time to Pay scheme, a recession measure which was made permanent in last week's Budget.

Birkenhead-based Woods Squared, which specialises in business growth advice for small firms, says that although it has been successful in accessing the scheme for clients, it is hearing of other recession stricken firms being rejected.

Time to Pay, which allows companies to spread payment of VAT and Corporate Tax over a number of months instead of paying in one lump sum, was originally an emergency measure to help firms through the credit crunch.

Business owners need to plan better

Woods Squared Director Alan Woods said small business owners anxious about their cash flow now had to 'grab their finances by the scruff of the neck' and plan better.

"The Time to Pay scheme has merit but it can also just be papering over the cracks of deeper financial problems," he said. "The reality is that of the 300,000 agreements the Government has signed, some have been with the same firm. The actual number of firms helped is 100,000, so there is no guarantee you will be accepted. So the key message to small business owners is to plan their finances. Most financial problems arise precisely because of a lack of strategic planning and a lack of understanding about how to manage finances. It is vital in this climate to properly understand how much you can spend and how much tax you have to pay. Then you have a clear idea of what you have to do to grow your business. Too many businesses are misunderstanding the tax system, fundamentally underestimating their tax liability."

Mr Woods said growing a business requires effective cash flow management, monitoring actual cash flow against projections.

"Businesses are steep walking into problems simply because they look at projections and not actual figures," he said. "So we would urge business owners to seek professional financial planning advice to avoid and predict problems at the earliest stage. If your accountant only does your end of year accounts and no more you need to look at a more proactive service which helps you with your week to week and month to month finances. We know there are lots of good profitable businesses out there who are being tripped up by poor financial planning. Many of these firms are then looking to the Time to Pay scheme to bail them out. But the scheme can't be relied upon especially for firms who have mismanaged their finances in the first place as they are unlikely to be accepted."

Cash flow is the lifeblood of any business

Mr Woods urged small firms keen to grow and avoid financial problems to 'head problems off at the pass' and implement a robust credit control procedure.

"Cash flow is the lifeblood of any business and you need to do all you can to keep that lifeblood flowing consistently and strongly," he said. "We advise asking all clients to pay by standing order, or direct debit, rather than cheque so you have a nailed down payment date which can't be pushed back. If a customer refuses to do this, make clear what your payment terms are and consider suspending work or charging interest until payment is made."

Mr Woods said it is wise to have a set procedure for chasing payment as soon as the invoice has been sent.

"Check immediately with the customer that it has received your invoice and ask when you can expect payment," he said. "This lets them know you are on the case and are alert to any potential problems. It is critical that the client is aware that you are prepared to chase payment hard. That way they are more likely to pay your invoice before invoices which are not being chased. It stands to reason that the suppliers who do not chase payment and do not enforce sanctions will be paid slower than those that do. Communicating with the client regularly also encourages them to resolve problems and inform you if there are difficulties."