

## HANDY GUIDE

### Cash Flow versus Profit

**A common pitfall in business is believing that profit projections are the same as cash flow.**

**When starting out for the first time, or planning future growth, the first natural focus is on how much will my sales will increase. However, unless you plan and can anticipate your cashflow, you will have real problems. This will be even more significant in the early days of your business, but will impact on future growth and day to day trading when the business becomes more established.**

Cashflow is vital. A large projected turnover and a predicted profit figure are of little relevance if cash flow problems exist; in extreme cases, businesses fail before profits materialise into cash.

A well thought out business plan and cashflow forecast are essential if a business is to be successful in raising finance. A bank will assess the quality of the detailed business plan, so think of it in terms of, the fewer questions the bank needs to ask, the better the business plan.

Remember, banks are in business to lend money and when the decision is made as easy as possible for them, they are more than happy to accommodate.

Next, you must be credit worthy. In the majority of cases banks will expect you to take security and see at least a 30 per cent own cash injection into a proposal.

The actual numbers must demonstrate that the required borrowing is 1) likely to be repaid and 2) is sufficient to run the business. The biggest mistake a business can make in a proposal to a bank is to under or over borrow.

If you over borrow, you will incur unnecessary interest charges and if you under borrow you are likely to be returning to the bank asking for more funds; this does not reflect too well on your planning skills and could be called into question by the bank.

An experienced accountant who has been through the process many times can help to avoid problems. Once you have your business plan finalised, you have an excellent working model from which to monitor your performance. A well-run business will have such systems in place with the ongoing support of your accountant to help manage the process.

A proactive accountant with an interest in your business will be able to report back to you monthly and you should be able to identify where certain areas are not going according to plan. There is nothing worse than looking at a set of accounts at the end of the year to see a problem that could have been avoided if spotted earlier.

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