Cash Is King

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How often does a business man attempt to buy inventory and he realizes that his bank account does not possess the necessary balance? Or pay his employees and understand that he doesn't have the funds to cover the necessary tax payments?

Was this entrepreneur aware of the balance in his bank account? One would bet probably not.

A business possesses many assets—a strong management team, an excellent marketing strategy, and outstanding products. But if it doesn't have any cash, these assets will be of no value as far as liquidity is concerned.

We often find this especially true of the entrepreneur who has recently created a business and is attempting to solve the many problems he is encountering for the first time. However, this issue is not limited only to "rookies". Often seasoned executives find themselves strapped for cash.

Despite all of the virtues a business might possess, if it doesn't have cash it can't operate. Therefore the rationale for the topic of this article—**CASH IS KING**!!

In this review we will present several ideas that will allow the executive to avoid the pitfalls and potential life-threatening consequences of not possessing sufficient cash in the bank. They are:

- Knowledge
- Controls
- Forecasting

Knowledge – Today with the advent of on-line access to a bank account an individual can maintain virtually up to the minute knowledge of his bank account. When deposits are made and checks are written on the account, some form of a ledger should be maintained that details every transaction. By accessing the bank account on-line the individual can track the status of the transactions posted and verify that they have been processed by the bank. Generally deposits are recorded immediately but checks sent to vendors or employees might not be cashed immediately. It is important to track these outstanding transactions. The bank account might show a positive balance but the outstanding checks could exceed this balance. In 2015 no individual should have a bank account from which he cannot gain up to the minute information on-line. The same access should be provided on all credit cards owned by the business as in many situations, credit card balances can be as important as cash balances. Knowledge of the bank balances is vital, but this awareness can be meaningless if the account is not reconciled. Earlier we have stated that deposits have been made to the account yielding a positive balance but checks have been issued that have not been cashed. Potentially, these outstanding checks could exceed the positive bank balance. Reconciliation of the bank account is the process required to insure an individual maintains accurate knowledge of his cash position. With on-line access to bank accounts, this process can be completed daily. It is not necessary any longer to wait until the end of the month when statements are received from the bank. These statements can arrive after the damage has been done. Current reconciliations of the account can prevent short term disasters but they can also present short term opportunities. The reconciliation process can inform the owner of excess balances with which he might be able to make additional investments in the business.

Controls – Since there is no denying the importance of cash in the success of a business, it is mandatory that the owner maintains absolute control over this asset. In a small business, generally only the owner has access to the bank account. He maintains the check book in a secure location at all times. If checks are paid on line, he is only individual who knows the access codes to the account. In a larger business there are often other people involved. Trusted employees might be allowed to sign checks following approved procedures. But the ultimate control should be a review of the bank account. On-line access allows an individual to see all of the checks that clear the bank. This review can then be compared with the company's internal records of authorized checks that have been issued.

Forecasting – Clearly understanding the current cash balance is important. But what will be the future cash balances? To accomplish this objective, companies must forecast their future cash balances. At a minimum we would recommend that cash forecasts be made monthly for the next six months and perhaps quarterly thereafter. A forecast is the result of a rather simple formula: current balance plus receipts less payments. Receipts represent collections from customers and other sources while payments represent the accumulation of expenses such as employee costs, other office expenses, and vendor purchases. A forecast can become complicated but in its simplest form it is mandatory. The final aspect of any forecast is the reconciliation of actual results with the forecast. For example at the end of the month, compare actual cash balance with the forecasted cash balance with the goal of understanding the reasons for differences. By understanding variances from forecast, the manager can improve future forecasts and improve his knowledge of the business.

Cash is the most important asset. Only by maintaining accurate knowledge, completing repeated reconciliations of balances, controlling its utilization, and forecasting its future availability can the entrepreneur insure that his business will achieve its stated objectives. ♦

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