

Managing Practice Cashflow during the Pandemic

by Mark Butler

As busy practitioners know, especially since March 2020, much more of our focus has been spent on helping our clients best manage their business challenges. Gaining an understanding of the various operations and implications of subsidies, payment breaks, debt warehousing and moving compliance deadlines has taken up our time. As a result, our own firms / businesses can suffer disproportionately given our attention on properly advising our clients.

Recent events have brought the topic of cashflow management to the forefront of all our minds and the term 'Cash is King' is something I have heard more than ever in recent months.

Due to the nature of many of our practices it can be many months and even more than a year before we can feel a squeeze on cashflow.

We can be slow to prioritise managing our own cashflow due to the processes in how many of us issue fees and are ultimately paid. It is still not uncommon for practices to be paid the prior year fee when the current year compliance is complete, this in a lot of cases, is at least 12 months later.

I would like to share some tips and suggestions with regard to how better to manage practice cashflows. None of these are likely to be considered groundbreaking or new but are even more pertinent in these times and perhaps a timely reminder as we come close to another year end and the inevitable squeeze on cashflow which will come for many.

1. Review your Costs

For most practices the principal cost is staff salaries. In a lot of cases these have grown in recent years and may not be in line with projected revenues due to continual pressure on compliance fees or clients in certain sectors which have been badly hit by Covid restrictions.

Therefore, review your monthly salary costs, consider how roles may have changed along with how your % of salaries may have increased against your fees and make changes now for the future.

This can mean changing how administrative duties are carried out, redefining roles or becoming more leaner as a business by reducing the number of employees, but focusing on keeping salary costs in check in practice will certainly have a positive impact on cashflow.

2. Prepare a Detailed Cashflow Forecast and Budget for your practice

We are all proficient in preparing budgets and associated cashflows for clients but can be slow in completing them for ourselves.

Take the time to prepare a detailed monthly budget and cashflow projection for the next 12 months so as to understand the fees which have to be raised and cash that has to be collected to reach your targets.

Be specific with the fee budget and share it with your relevant staff. Keep this under constant review both at the end of each month, and year to date for actual v budget. This simple change in management will ultimately have an impact on cashflow as no doubt work in progress will move to fees quicker and where budgets set real targets which are consistently reviewed, there will always be the incentive to meet them.

This will be far more beneficial to cashflow rather than what can happen in many practices when fees are raised because cashflow is getting tight or there is time between deadlines.

3. Record Time

Make sure your time recording system is fit for purpose, hourly rates are set properly to match your fees and time is recorded correctly. I have come across practices who do not record time, post time well after the services are provided and where the time has no bearing to the fee ultimately raised. I appreciate the advantage of 'value billing' but for most practices' hours form the basis as to how they bill and not recording time properly negatively impacts cashflow.

Therefore, review your time recording system, ensure hourly rates are linked to a multiple of salary cost at each level and ensure timesheets are completed each day. You can then set budgets for each client / piece of work and review the work in progress recovery. This linked with your key staff having fee budgets as to which they have ownership will get time out of work in progress quicker into fees and therefore help with cash flow.

4. Invest in Technology

If you haven't already done so for your own practice, consider moving onto a cloud accounting system as they certainly help to deliver on giving reliable information quickly without the need for manual input and will

aid in keeping practice finances up to date by availing of direct bank feeds and character recognition software for recording purchase invoices. As we know again from advising our clients where real time or even monthly information is available it will greatly aid in managing cashflow.

Make sure your Customer Relationship Management system is fit for purpose and preferably includes time recording, fee generation, debtors and work in progress in real time. It can be that the reporting from these systems does not facilitate good management reporting, but dashboards can be created to give real time up to date information without the need for spreadsheets. We have recently implemented such dashboards and the access to information quickly, such as Work in Progress, Fees to date, Cash Receipts and Debtors days is invaluable.

5. Credit Control

Everyone should have responsibility for input to fee generation but once raised there needs to be a system of collection. Make sure that there is a properly aged listing available at all times and have a documented system for collecting fees.

So set a cash collection budget as part of your overall budget, pick a date in the month for close off of fees, send electronic statements at the end of a month and have a follow up procedure including a system for making a call where fees are outstanding.

Ensure this is documented and over time valuable information regarding the collection history from specific clients will be obtained.

6. Make it easy for clients to pay

Use the payment technology which is available to make getting paid easy.

Introduce a card payment reader many of which are available as apps. We have found that clients, particularly private clients, really like to be able to pay over the phone using their card. These apps make this process really simple.

Utilise the fee finance facilities offered by various providers. These are great platforms where you can be paid immediately, and the client payment is spread over up to 12 months. The set-up is straightforward, and a real advantage is that year to year it is a simple process to renew without having to have any further documentation signed.

Offer a standing order facility particularly where you are providing ongoing services such as payroll. Once set up there is no better way to be paid, and clients will also like it as it assists with managing their own cashflow.

Conclusion

Getting a system in place to manage our own practice cashflows can be time consuming but well worth it because if we can bill efficiently at a rate which is linked to our budget, get paid quicker and have the facilities to be able to monitor the results it makes the practice more profitable and allows us to focus on the future rather than struggling with too much


non-recoverable WIP and overdue debtors.


Remember 'Cash is King' applies to us as well as our clients.



Mark Butler,

Managing Partner HLB Sheehan Quinn and chairman of HLB Ireland. A member of the Institute of Certified Public Accountants in Ireland. Mark is an expert in strategic business planning with over twenty years' experience advising domestic and international businesses. He focuses on a number of sectors including FDI, veterinary practice, food, hotel & leisure and property investment.



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