

Business Cash Management

It's amazing how many companies I see that carry large deposit funds in their cheque accounts. In the main, this money does not earn interest for the business, however earns substantial profits to the banks.

Granted, in a home business scenario we are more likely to be "scratching" around for cash, but there are some times of the year when businesses do carry a level of surplus funds.

With a bit of planning, you can reap some benefit from these funds. Remember, it's better to earn dollars for your pocket, rather than leave it all for the banks.

So....what can we do? Here are some tips that may be useful:

- Consider opening a Cash Management Account (CMA) for the business and transfer spare funds to that account. You can always transfer money back to your cheque account when bills are due. At least you'll be earning interest in the meantime!
- Don't be tempted to move money back and forth to your personal accounts. This will create an administrative nightmare when it comes to tax time – and will cost you substantially in terms of fees from your tax accountant;
- For those businesses which are regularly flushed with cash, talk to your bank about a "sweeping arrangement". This is where any credit funds at the end of a day are transferred ("swept") to a CMA. Should the cheque account require funds the next day, these are automatically transferred from the CMA back to the cheque account to cover cheques written.

As you might imagine, the banks do not talk publicly about these arrangements, but they are available.

- If you find no financial benefit in transferring to a CMA, there may be ways to reduce your bank fees by holding surplus funds in your cheque account. You may not earn interest, but some banks reduce their fees by way of a Rebate. The rebate works by reducing transaction fees by \$X per every \$1,000 average monthly balance held in the account.

This becomes a very tax effective strategy as tax is only paid on income, not on reduced costs.

Check with your bank to see if rebates apply to your cheque account.

- Again, for those with larger deposit funds which may not benefit from sweeping arrangements, consider opening an interest bearing cheque account. You can at least earn a little extra income from these and not worry about moving funds around.

Care: Generally interest bearing cheque accounts attract a larger monthly maintenance fee from the banks.

How do I know what my bank balance will be day-in-day-out?

A little bit of cash planning each week or month will assist here. Don't forget it is you who controls your business' bank balance.

Cash planning is not only for big business. All businesses – large and small – should have a full grasp over their cash position. It's no different to personal budgeting (and I know how good we are at that!!).

Cash planning will be discussed in my next article, however once you understand the future “ins and outs” of your bank account, then you can better manage your business' cash.

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