

IPMG Working Capital Checklist

As a business owner or manager, **there are a number of levers you need to control** to successfully manage working capital and drive a successful, cash-generating business.

Those levers fall into two buckets: **current assets** and **current liabilities**.

Use this checklist to assist you in achieving a firm control of your working capital levers and cash position, so your business proposition is not hampered by poor cash flow.

Working capital lever	Definition	Management checklist
CURRENT ASSETS		
1. Cash and cash equivalents	Cash in the working account	☐ If you choose to fund working capital with surplus cash, ensure you have easy access to surplus funds to meet commitments. ☐ Have a buffer over your estimated commitments, if possible.
2. Short-term investments	Investments with a maturity date of less than 12 months.	☐ Consider using a short-term investment strategy if there are major peaks and troughs in the cash generated in your business. This may be due to rapid growth, project mobilisation or other market factors.

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3. Accounts receivable	Debtors	☐ Ask the hard questions of a new customer regarding payment history. Consider tightening payment terms until they've established a positive track record. Use credit rating agencies. ☐ Set standard timing for invoicing and stick to it. Document and agree on your payment terms ('terms of trade'). ☐ If you send out invoices with 14-day payment terms, then on day 13 make sure there is a calling program. Call all your key customers due for payment the next day and speak to the decision maker or accounts person responsible. ☐ Monitor payment and resolve disputes quickly. ☐ Unless you're a bank, don't act like one. Some businesses have payment terms that state 'the payment period is X days – if the account is not paid in X days the customer will be charged interest at a daily rate of Y per cent'. Interest being charged doesn't necessarily help your cash flow!
4. Inventory	Stock on hand	☐ Record your inventory. ☐ Record, item by item, what monthly and annual sales are versus your inventory holding. ☐ Ensure your inventory holding matches your sales and supply cycle. ☐ Review your inventory at least once a month to appreciate whether it's over- or under-valued versus your business needs. ☐ Be aggressive about writing down inventory and/or divesting or removing obsolete items. ☐ Provision account for obsolete items.
5. Prepaid expenses	Services purchased upfront	☐ Be selective about which services are pre-paid. You may receive a margin or cost benefit through such a strategy, but remember you are potentially tying up working capital.

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CURRENT LIABILITIES		
6. Accounts payable	Creditors	☐ Meet your commitments when they're due. ☐ If you wish to pay accounts early, ensure you receive a better margin for doing so. ☐ If you have a track record and a relationship with suppliers, look for opportunities to extend your payment terms. Document and agree a fair arrangement upfront. ☐ Spot opportunities to remove or minimise timing gaps between debtor and creditor payments. ☐ Talk ahead of time to creditors if you have cash flow problems.
7. Short-term debt	Line of credit or overdraft	☐ If you choose to fund working capital with a line of credit (debt funding), ensure you have easy access to surplus funds to meet commitments as and when they fall due, in case limits are pressured. ☐ Have a buffer in your line of credit over your estimated commitments, if possible. ☐ Try and achieve a credit position once a month with your overdraft. If this is not frequently achieved it may mean you have core debt in your overdraft rather than simply working capital. If so, talk to your financier about loan restructure options.
8. Current commitments	Commitments within next 12 months e.g. interest on five-year loan	☐ Budget for major loan interest and repayment obligations, as these can cause 'lumpy' impacts on cash flow. ☐ Plan ahead for residual payouts on plant and equipment leases – another potential heavy impact on cash flow.

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9. Salaries	Include accompanying payments e.g. superannuation	☐ Employees are a critical part of your business – ensure you always have cash flow to meet wage and salary commitments. ☐ Budget and provision ahead for other statutory obligations to employees, such as superannuation payments and accrued entitlements for annual leave and long-service leave.
10. Taxes and regulatory and statutory payments	GST, income tax, etc.	☐ Actively manage and monitor your tax, regulatory and statutory payment obligations. Have your team estimate these ahead of time when cash flow is tight to ensure you are able to meet commitments. ☐ If you suspect you're going to be seriously challenged in meeting these commitments and can't see any alternatives, talk to your accountant or advisor about contacting the ATO about a possible payment plan. ☐ If you get behind and overdue, you are too late. Missing payments to the tax office will negatively impact your standing with both the ATO and your bank.



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