

**A PUBLICATION FROM THE  
BUSINESS SOLUTIONS DIVISION**

**BUILDING SUCCESS  
IN CHALLENGING  
TIMES**



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**Maximize  
Available Cash**

It's no secret that businesses are experiencing major challenges. Some of them include significant reductions in sales volume, low profit margins, and erosion in the market base. These factors, among others, adversely affect financial results, cash flows available for working capital, and the creditworthiness of the business.

Here we offer some valuable strategies to weather the storm and take your business to safe harbor.

**First Things First: Evaluate Your Accounting Data**

Is it up-to-date and reliable? Does it provide enough detail? Are there "trash accounts" with significant balances?

Make sure that the financial information accurately reflects the current situation of your company. This is the starting point to identify problems and make successful strategic decisions.

**Optimize Cash Flows**

Reductions in sales translate in decreased cash flows. This, coupled with the growing trend of the financial sector to be more careful in granting credit, makes the wise management of available funds a vital matter.

- Evaluate existing bank accounts and corporate cards: Do you have more than you need? This may cause unnecessary bank charges, which in percentage terms tend to be high. Check regularly and actively negotiate credit card processing fees for reasonable and competitive terms.
- Take advantage of cash discounts; in percentage terms, they represent high yields.
- Transfer daily operating surpluses to short-term investments to obtain returns on cash balances; compare the performance of cash surpluses vis-a-vis the interest cost of credit lines and commercial loans to evaluate the desirability of paying out debt balances.
- Prepare cash flow forecasts to anticipate cash needs.

## Keep An Eye on Accounts Receivable

### Focus on Collections

It is common to emphasize on moving inventory and generating sales. But this is not enough, as the financial benefit is obtained when revenues are converted into cash. To achieve this goal it is essential to:

- Evaluate the extension of credit to new customers and monitor the credit limit of existing customers.
- Reconcile at least once a month the subsidiary of accounts receivable with the general ledger balance.
- Verify customers' data at least once a year to maintain updated postal and email addresses, telephone numbers and contact personnel.
- Send electronic monthly statements, to assure immediate delivery, avoid postal charges and the loss of mail.
- Encourage payment through wire transfers to accelerate collection and minimize losses.
- Be consistent in following - up and documenting collection efforts.
- Encourage personal contact through periodic visits to key customers to strengthen business relationships and identify potential problems or opportunities.
- Establish sales incentive packages (bonuses, commissions) based on collections rather than on sales volume. This strategy not only broadens collection efforts through the involvement of sales personnel, but also prevents incurring in additional costs on uncollected revenues.
- Monitor the collections posting into the accounts receivable subsidiary to identify errors or balances that may require further monitoring or follow-up (such as sending additional documentation). Early detection of these conditions prevents incurring in future significant losses, even those due to fraud.

### Maintain Adequate Inventory Levels and Records

Inventory represents money tied-up in the business as well as significant additional expenses such as storage costs, personal property tax, insurance, and obsolescence, among others. This is why, unless it is properly controlled, maintaining inventory can be inefficient and burdensome. Proper inventory management entails:

- Establishing appropriate levels based on need, time of receipt and shelf-life.
- Keeping detailed records reconciled to the general ledger.
- Identifying items with high turn-over that may be purchased in larger quantities to take advantage of volume discounts.
- Recording accurate inventory costs to allow for adequate calculations of sales price, discounts, and healthy margins. In addition, this helps in preventing overpaying property taxes.
- Establishing clear procedures and controls for the functions of receipt, dispatch and handling returns.
- Conducting periodic counts to verify the correctness of quantities recorded, reconcile differences, and identify shortages.

## Inventory Management: Key to Success

## Apply tax planning strategies

### Assess the Tax Effect

The adoption of simple administrative measures may have an immediate effect in lowering your company's tax burden:

- When establishing sales prices, factor-in the volume of business tax effect. Marketing incentives, such as promotional or volume discounts do not generally decrease the tax liability, as these taxes are based on gross revenues.
- Eliminate uncollectible accounts receivable in order to be able to take this deduction in the income tax return.
- Write-off obsolete or damaged inventory to include this deduction in the income tax return and reduce the payment of personal property tax on inventory.
- Identify the amount of inventory in transit at December 31 because, in many cases, this balance is not subject to personal property taxes.
- Remove from the accounting records equipment no longer in use or inexistent, to avoid paying personal property taxes on such balances.
- Comply with due dates to avoid incurring in penalties, interest and surcharges.

The implementation of these measures will position your business to meet the challenges of the present and move successfully into the future.

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