

10 Tips for Self-Employed

Cash is key to the survival of any business. No matter how much equipment or assets you have in your business, you will not survive if you cannot pay your bills. As a self-employed contractor, you do not have the accounting or financial resources so readily available in a large corporation and therefore are directly responsible for your own cash management.

Business is simple; you receive cash for your services and pay cash for your supplies and administrative costs. Sound cash management practices ensure that you receive as much and pay as little cash as possible. The following 10 cash management tips will assist you.

1. **Have a cash flow budget.** You should prepare a minimum one year estimate of the monthly cash receipts and expenses for your business. This projection will enable you to immediately identify any periods with cash shortages or performance issues such as prices which fail to cover the expenses incurred. You can further improve your operations by comparing your actual results each month to your budget. After all, markets change and the earlier you spot the effect on your operations, the earlier you can act.
2. **Manage business risk.** Your budget will reflect your estimated earnings. However, it may not reflect irregular events that have a direct impact on your cash. Ask yourself “What if...” questions for scenarios such as the loss of a customer, a slow paying customer, equipment failure, seasonal revenues or expenses, etc. A pre-approved loan or line of credit at favourable rates will cover such events.
3. **Know your cash position.** You should always know your cash position. This is not the same as your budget, which is only an estimate, or your bank balance, which does not reflect outstanding deposits or payments. If you know your available cash at any point, you can avoid cash crises and take advantage of sales or discounts during cash surpluses.
4. **Manage accounts receivable.** Everyone recognizes that extending credit to customers is required to remain competitive. You must keep track of the accounts to ensure accounts are collected as early as possible. Keep in touch with your customers as the longer you fail to hear from your customers, the less likely you are to receive full payment. Consider small claims actions (currently for amounts under \$25,000), collection agencies or factoring companies (sale of your receivable to a factor at a discount) where your customer relationship is not critical to the survival of your business.
5. **Manage accounts payable.** Take advantage of discounts for early payment. Where there are no early payment incentives, keep your cash until the bill is due.

6. **Manage inventory or supplies.** Consider customer advances or direct payment for larger inventory purchases. Take advantage of cash surpluses to obtain volume discounts or sales on high turnover inventory or supplies.
7. **Insurance.** Insurance is available for most business risks; including equipment failures, contract performance, product liability, employee dishonesty, natural disasters, etc. Insure those risks based on your risk tolerance and where a loss may result in the failure of your business. You should also consider insurance coverage for owner disability, critical illness, retirement or life insurance where your income stream is critical to the financial survival of your household.
8. **Pay yourself.** Treat your pay as a regular expense of your company. As a self-employed person subject to fluctuating earnings, it is critical that you set aside a portion of your pay for a personal cash reserve of approximately 3 to 6 months household debt and expenses.
9. **Employee vs Self-Employed.** Do not be caught with an assessment by CRA (Canada Revenue Agency) for employee earnings. The onus is on you to ensure that you meet the requirements for a self-employed person. Consult CRA Guide RC4110 available on their web site.
10. **Pay your taxes.** Look on the positive side, if you pay taxes, you're making money. As a self-employed person, you are directly responsible for remitting the taxes for your business. File your tax returns on time and make the necessary remittances to avoid the crippling interest and penalties, which effectively doubles the amount due. Be particularly careful in the first year of operations or where your earnings have increased significantly as you may be accruing a significant tax liability.



D. Kwasnicky & Associates Inc.

211 – 3030 Lincoln Avenue
Coquitlam BC V3B 6B4