

# Triumphing the small business cash management



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**DEBIT CREDIT**

Small businesses typically measure their wealth on the basis of cash availability. Thus, we frequently see in practice that start-ups and small businesses' cash is under the same personal bank account of the entrepreneur. Don't get me wrong, there is absolutely nothing wrong with this practice, but it pays to split that out – for one very compelling reason – it is absolutely (or almost) free to set-up a separate bank account for your company.

Managing cash is the foremost important hurdle that the budding entrepreneur should learn in the context of finance. There is nothing more important than learning where your business' cash is going. You should always have a clear visibility over how your business' cash is spent (or even earned!). This allows better financial management and ability to spot what went wrong to your business finance. The traditional practice of retaining the business bank account to personal bank account can prove problematic in the long-run.

While there are too many reasons to justify why your business' cash should be absolutely split out from your personal cash balance, let me give you three reasons to make the move now.

## 1. Work and life should be balanced

Ask yourself how many times you've tried to know how your business is doing and you look at your own bank account? Definitely – a lot of times! The problem in maintaining the same cash account is that you risk spending your invested cash in your business as if they are your personal earnings. One day you'll wake up realising that you have caused a massive deterioration in your company's liquidity! I hope this does not happen, but why go that route when you can get out of it now – for free! What's more? You'll immediately feel the need to grow your business to improve your personal cash balance to be able to spend on personal things!

## 2. Learn financial management for free

With your personal cash account split out from your business' cash, you'll absolutely learn to manage and monitor both you and your business' expenses. The first step to small business financial management is mastering cash management, which means how fast you can generate cash from your receivables and how slow you can pay out your expenses – now this gets complex! The more cash you see, the more you deem that your business is growing. Keeping tab of your payables paves the way for you to avoid running into bankruptcy!

## 3. Know your business performance immediately!

Cash equals wealth! This is how we usually look at start-ups and small businesses. While you know how to look at your profit or loss (hopefully you can find how much your net income is!), small businesses should learn to look at their liquidity status (which is mostly cash) as the basis of their real wealth. While your accountant (hopefully!) will tell you how much your profit or loss is (or your net assets are, ) it just doesn't really make sense to think about these as wealth! Your performance as a budding entrepreneur is judged financially by the cash you generate!

As I close , it is important for me to call again businesses to take action and split out their personal cash from their business' cash. Let this sink in for now before addressing other personal financial matters

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