I may here quote a line which I had read somewhere during my studies on personal finance management- “Measurement is the first step in Management”. A manager needs to measure or track his income, expenses and investments to manage his business effectively.

Personal Finance Management is a dynamic exercise which shows how an individual manages his money in his business. It involves analysing his current financial position, tracking cash flows, managing the debts and liabilities and thereby predicting his short-term and long-term capital requirements. The term ‘Personal Finance Management’ is interconnected with many business factors like income, expense, accounts, banks statements, tax, credits, liabilities etc.

Planning and tracking is very important in business to achieve business goals and spot laggings in effective management. A careful tracking is required to spot whether your capital is enough, to invest your profits wisely and to know whether your accounting ratios are on the right path. Today we have a good number of financial statements and modules to keep us informed about the financial health of a company.

The essence of successful personal finance management is the effective regulation of money flowing in and out of your business. A consistent cash flow creates a predictable business pattern, making it easier to access and budget for future growth. Even a business that is healthy in all other respects can be vulnerable to internal failures resulted from lack of internal controls. So, Cash Flow Management is the key of successful finance management.

Cash Flow Management

Cash flow in its core deals with payments from your clients against purchases and payments made by you against your purchasing expenses. Or in other words, cash coming in and cash going out and what is your balance cash at the end of designated periods of time.

Every small business owner needs to establish their payment terms and should strictly adhere to it. Setting up payment terms covers counter transactions, progress payments and indirect payments. It is important to establish clear, written payment terms with clients prior to providing services or delivering product.

The purchase payment options for the customers are in two forms: (a) direct payments like cash payments and credit payments and (b) indirect payments like payment through cheques, debit cards, credit cards and online payment options.

(a) Direct Payments- If you are receiving payments as cash, make it a habit of tracking the receipts in your cash registers and do make daily bank deposits. Also invest for a good-quality safe for cash storage for times when you cannot get to the bank.

If you are running a service business which entertains credit payments, you can ask your clients for a deposit prior to availing the service, especially if it is something like a product sale that needs advance payment. In such cases, the initial deposit should be for at least the value of the materials or else, if you're supplying labour only, try to secure a deposit of at least one-third to one-half of the total value in advance. Your order form or contract should clearly mention the terms with information on your refund policy in case of cancellations. Securing a deposit is your best way of ensuring that the basic out-of-pocket costs are covered and you are not open to financial risks.

You can use percentages to calculate progress payments, like 25 percent initial deposit, 25 percent upon delivery of any materials, 25 percent upon substantial completion, and the balance at completion or within 30 days of substantial completion. Or you may arrange for more concrete progress payments based on the scope of the service offered.

It is a general rule that when a transaction is complete you should be paid in full. However, in some cases, there will be extended credit facilities on a revolving-account basis, from 30-120 days after delivery of the product or completion of the service. If you are encouraging this, make sure to conduct this only to familiar and trust worthy clients and track the receivables with periodic reminders on due dates of each clients.

Indirect Payments: Like the direct payments, track and record the indirect payments also. Cheque payments can be tracked either in the ‘accrual method’ or using ‘cash method’.

Online payment services allow people to exchange currency electronically over the internet. Paypal is the most popular online payment services. Paypal accounts allows funds to be transferred electronically among members, but only the business account enables merchants to accept credit card payments for goods and services.

Whatever, the means of payment, always keep a separate tracker for dishonored / delinquency instances.

Credit Collection- No matter how careful you are when it comes to extending credit privileges to customers, non-payments can happen in any business. The first rule of getting paid is to keep the lines of communication open with your delinquent client, and keep the pressure on to get paid through the use of non threatening telephone calls, letters and personal visits to keep your business relationship intact.

An option if you have a long list of delinquencies is to hire a collection agency to collect the outstanding debts. Collection agencies generally charge a percentage of the total amount collected as their commission, which can range up to as much as 50 percent. Your final option with delinquencies is to take action against them legally.

One thing you need to keep always in mind that, the faster your receivables turn over, the more capital you'll be able to spend on growing your business.

Debts Management: Debts includes routine business expenses against rent, electricity, stationary, payment against purchases like raw materials, goods, salaries and also your financial liabilities like loans, credit cards and taxes you owe to pay.

As fast as the cash comes in, use it for bill payments and investing in business building activities to increase your revenues and profits. Paying bills by their due dates will always have a positive impact your credit standing. Making timely payments will create a history of responsible finance management.

If your supplier is offering you discounts for early payments, make benefit out of it. Think of it this way: a 2% on a 30-day invoice is equal to a 24% annual return if the money was invested. If your suppliers are not offering this, ask for it; they may be willing to offer the discount in return for speeding up their receivables.

Pay loans and credit cards on time to save piling up of uncontrollable interests. Also take care of taxes on time to avoid unnecessary penal charges.

Accounts Management

You need to familiarise yourself with basic bookkeeping, money management principles for making sense of accounts receivable and payable. When it comes time to set up your financial books, you have two options; either do it yourself or hire an accountant or book keeper. If you opt to keep your own books, make sure you invest in accounting software to manage your accounts and time effectively. Accounting softwares allows you to create invoice, track bank account balances and also the accounts payable and receivables.

Bank Account Management

Always set up separate account for business for an easier tracking of business income and expenses. All account statements needs to be reconciled with actual at least once a month. For setting up of a business bank account you need your personal identification as well as your business name registration papers and business license. If your credit is sound, ask your banker to attach a line of credit to your account, which is useful when making business purchases or during slow sales periods to cover overhead until business increases. Also enquire about all small business services offered by the bank.

Client Management

Many professional companies in different sectors like advertising, accountants, real estate, management firms, etc. work with clients on a project-by-project basis. Try to convert some of these clients to a retainer relationship, where they pay you money on a monthly basis for services. You may need to offer them some kind of incentives or value-added services to encourage them to turn to a retainer, but this will help make your cash flow more predictable even though it affects slightly on your profit margin.

Pricing and Inventory Management

Many small businesses hesitate to increase their rates because they're afraid they'll lose customers. However, customers actually are tuned to accept small, regular price hikes. Also, make it a practice to check out your competitor’s rates consistently. If they're charging higher prices, you can also.

Overstocking inventory can do no help, but only tie-up cash which could be used otherwise. Gauge your inventory turns regularly to make sure they are within industry norms. This can be done by calculating your inventory turnover ratio (cost of goods sold divided by the average value of your inventory). Avoid buying more when suppliers lure you with big discounts; this can tie up cash. Also check your inventory periodically to track old and outdated stocks. Either you may defer upcoming orders to use that stock or sell them at any cost to improve your liquidity.

To save, one needs to keep his expenses regular and liabilities under control. Once that is done, you need to make the right investment choices so that not only your money outpaces taxes and inflation; it also keeps your life and accumulated assets insured. A pursuit of financial freedom requires a holistic approach and necessitates that you take steps in all areas of your day-to-day finances.