

Recession-hit small businesses are actively managing their cash flow yet struggling to access finance because they are not presenting their management accounts in the correct format to the finance and credit industry.

The news follows the latest research from the Forum of Private Business (FPB), commissioned by CreditPal, the free accounts analysis system for SMEs*.

The FPB is calling for greater collaboration between banks and businesses by asking that lending decisions be based on realistic assessments of up-to-date risk of individual businesses. In turn, business owners must be prepared to help themselves by working more closely with lenders by providing latest detailed management accounts information.

The survey found that 96% of the SME respondents have improved their cash position through better controls rather than looking for outside financing. Pursuing late payers (76%) heads the list, with placing tighter controls on ordering supplies (67%) next, followed by internal cost-cutting exercises (67%) and then deferring payments to HMRC under the Government's 'time to pay' scheme (25%).

The strongest sign that the credit crisis is driving better internal financial management is that 68% of respondents said that they now produce management accounts – with 85% of these citing the reason for doing so as improving business management. However, the cost of doing this is considerable – on average, over £500 each and every time. Just 17% of respondents cited accessing credit as the motivating factor behind the production of management accounts.

Interestingly, almost a third (31%) identified credit checks as the most effective method of monitoring their supply chain, yet few are prepared to supply their own latest financial information to outside parties. Today, just 13% are prepared to make available their latest management accounts and only 6% are willing to provide their own audited accounts.

However, in an economic environment characterised by continuing credit restrictions, clear and thorough financial information is increasingly being demanded by the finance and credit industry when assessing lending risk.

Surprisingly, only 8% of respondents said they have actively taken steps to improve their credit rating, probably reflecting the situation that the historic filed annual accounts currently show a better financial position than current trading. This is expected to change dramatically over the next six to nine months as UK businesses file 2008/9 accounts, as the then current trading is expected to show a better position. This will result in UK businesses requiring credit assessments to be based on their latest management accounts rather than the filed information.

“There is little doubt the UK has entered a new era of business finance,” said the FPB's Chief Executive, Phil Orford. “While it remains unsustainable for lenders' decisions on credit worthiness to be made generically, using over-centralised risk aversion criteria, business owners should be proactive in controlling their own destinies by providing thorough financial projections utilising new systems that enable management to produce up-to-date accurate

Research shows SMEs seeking finance are not presenting the correct management accounts to lenders.

Written by

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financial information.”

The FPB is working to empower business owners via the free management accounts analysis and financial information supply service provided by Creditpal, which offers free speedy, in-depth analysis of a businesses entire management accounts thereby saving an average UK business hundreds of pound per year.

The online service, which sits on Amazon Cloud Computing and is is certified to ISO27001 standards to provide the highest security standards, is approved by accountancy bodies the ICAEW and ACCA.

Chris Poll, CEO of CreditPal, said: "Free CreditPal was created to meet the SMEs needs as highlighted in this survey for an easy to use, highly secure online business reporting service that complements an SME's existing accounting system. CreditPal enables even non-accountants to comprehensively review and efficiently prepare accurate monthly management accounts for internal purposes. Then if required the owner/managers can automatically produce standardised and validated summaries for submission to suppliers of credit and finance."

An interesting statistic is that only 15% of respondents said their accountants had been the driver getting them to produce management accounts.