Accountatax Accounting Firm

September 6th 2018



[Early Financial Warning Signs to Look Out For!](http://accountatax.ca/blog/2018/09/06/early-financial-warning-signs-to-look-out-for/%22%20%5Co%20%22Early%20Financial%20Warning%20Signs%20to%20Look%20Out%20For%21)

Your company’s financial statements will indicate important details to the financial health of your business. Getting to know your company’s financial statements will allow you to recognize any unusual activities that could be harmful down the road. Here are a few financial warning clues that will save you trouble in the future:

1. Monitoring Cash Flow

If your profits are increasing according to your financial statements, yet your bank account says differently, perhaps it is time to take a better look at your cash flow. There may be a chance that the cash has drained from unmanageable overhead expenses, unsustainable debt loads, or uncollected accounts receivable. It is recommended to create a budget ahead of time to ensure cash flow issues are at a minimum.

1. Constantly Increasing Receivables

A balance sheet can either reveal that sales are flourishing or show that unpaid customer invoices are holding the company’s profits up. When your accounts receivable balance is constantly increasing, it could mean that the customer base, sales, or average sale value is growing, the company’s credit policies are too lenient, or the business is not adequately collecting money due by clients. It is important to keep an eye on receivables, as they do not become revenue until payment has been received. The longer receivables remain uncollected, the more likely it is that they will be uncollectible and thus written off as debt.

1. Rising Non-essential Expenses

Any money flowing out of your business expenses should be analyzed regularly and carefully in line with the money flowing from revenue. Many businesses will bundle up their small or non-operating costs as “Other Expenses” on their income statements. Be on the lookout for non-essential expense balances that are constantly at an increase. Unclassified expenses will make monitoring money a challenge and may be a sign that the company is spending more than usual on unrelated items.