

5 Questions to Ask to Make Sure Your Company's Financial Plan Is on Track

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An annual financial plan can help you regulate cash flow, cut costs, manage taxes and generate growth. But no matter how thorough that plan is, it is important to set up regular checkpoints to review it throughout the year. By June, you should have a good idea of how your business is performing against your annual plan and what to expect for the remainder of the fiscal year. Now is a great time to take a deeper look, assess your business' performance and adjust.

Here are five questions to ask at midyear to maintain a healthy financial plan:

1. Are you tracking on budget?

Review your income statement to see how you are performing against your forecasted budget. Are revenues, expenses and net profit or loss where you thought they would be? Why or why not?

If you don't already have an operating system for budgeting and monthly reporting, or you're falling behind, it may be time to seek external support.

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2. How's your cash flow and runway?

Throughout the year, the flow and timing of cash in and out of the business is an important health indicator. At midyear, take a closer look at your cash flow statement to understand where money is coming from and where it is going. Review things like the cost of operations, working capital and incoming cash from current contracts so you can make changes if necessary. Here are a few questions to consider:

- Do you have outstanding bills that need attention now?
- Are you on track to meet your target income?
- What planned expenses are coming up that you'll need to prepare for (for example, equipment purchases, headcount, conferences, training)?
- Do you need to increase your rates to better align with the market?

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3. Do you want to make new investments next quarter?

It may be time to reinvest cash in the business if you have cash available. Do you want to make major purchases, increase hiring or invest in R&D before the end of the year? If so, the third quarter will be the best time for this because you have a better sense of how the year is going.

4. Are you paying the right amount in quarterly taxes?

Now that you have two-quarters of tax payments, you can see how these payments are tracked with actual tax obligations. Are you paying enough to cover your annual tax obligations, or

must you adjust? Conversely, you may be paying too much or find that there are tax obligations that can be put off until next year. In this case, you could revise your quarterly tax payments and free up cash for business investments in the year's second half.

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5. Are you paying enough attention to tax laws?

Tax laws are always changing. Depending on your company structure and industry, you may be eligible for more benefits than last year or have to pay more for certain expenses. For example, in 2023, the rules around R&D costs changed for certain businesses. Tech companies are now being forced to capitalize on a larger percentage of these costs than ever before, and this can have drastic tax implications for venture-backed startups. They now need to plan to set aside 30 or 35% of their revenue for taxes, which takes away from what can be spent on the business.

To mitigate these issues, establish a good relationship with a tax expert. Schedule regular check-ins with your advisor so you can revise payments as needed, reallocate cash and monitor tax law changes as they occur.

It's always hard to find the time for a financial health check in the middle of the year. But right now is the perfect time to review your budget, cash flow and tax planning to ensure you're still tracking with the goals you set out in late 2023. Chances are good that you'll uncover new insights about your business and be able to make critical adjustments to see you through the remainder of the year.

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