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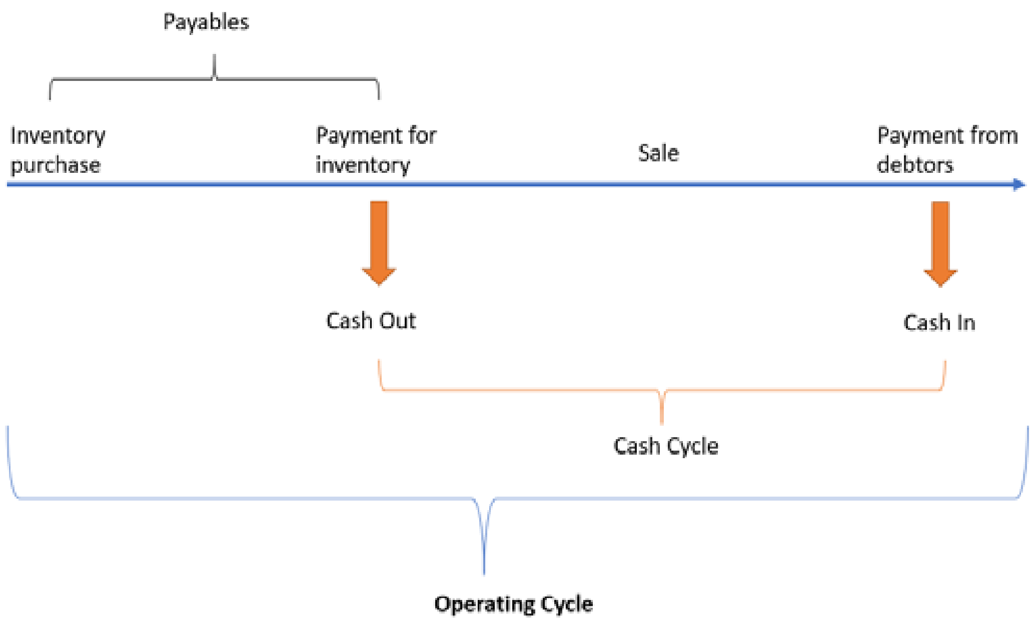
Cashflow management

Cashflow management is necessary for any business. Depending on the industry in which you operate, the cash conversion cycle (time it takes for the cash to come back to you once used for inventory) may be shorter or longer meaning appropriate planning is needed for the company to stay afloat and not run out of money (before getting the money back from the customer).

Basic conversion cycle includes:



Cashflow can be forecasted using two methods – **direct and indirect**:

Direct methods

Present all the cash received by the company in the period minus all the cash spent. This method is less popular as it is normally not produced by the accounting software and needs to be done manually.

For the production of the forecast the company will need to forecast cash which will be received from sales of products or services (but not accruals), sales of assets, loans received or new investments. Money out section will be cash expenditure on bills, payments to creditors and loan repayments, taxes, and new asset purchases.

Indirect method
Looks at the net income for the period and adds back all the items which are an accounting creation e.g. depreciation and amortization but also accruals. It is divided into subsections**:**
cash from operating activities, investing and financial activities
Operating activities
The forecast can be taken from the balance sheet and p&l. Net income forecasted should be adjusted by removing depreciation and forecasted changes in the assets and liabilities (added from p&l).
Investing activities includes planned assets acquisition or disposal.
Financing activities normally are forecast by comparing with the number from the previous year – dividends received and any planned changes in the investment.

How can cashflow support your business?

- Helps you understand when the company will break-even.
- Forecast payments due and new asset purchase which can help in predicting if more funding will be needed or when the company may struggle with cash.
- Helps to better manage and coordinate current assets, so that too much cash is not tied up in inventory or any spare cash is invested if possible to avoid losing the value of the cash.
- End balances will be known meaning the company can plan further actions based on the possible assumption of the worst and base case scenario.
- Support in monitoring the debtors and creditors to assure prompt payments.

Cashflow can be improved by undertaking several steps:

- If the cash is not sufficient the company can try to receive longer payment terms from the creditors and create shorter time periods for receiving money from debtors.
- Moreover, the company may provide discounts for prompt payments, within a specific period to cover their overheads.
- You may also send the invoices online to make sure they are with customers quickly and encourage online payment.
- Make sure that your records are up to date and are not missing any transactions.
- Chase for the outstanding money and make sure that the credit score is checked for every customer.
- Create a bond with your supplier to receive order discounts or if it is possible – bulk size discounts.

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- Finally, the right management of inventory which is just sufficient for the company operation may be a key to untie some of the money sitting in there.

If you have any questions, please contact us.

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