Managing your Cash flow

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How to manage your cash flow

Managing cash flows takes a significant importance to ensure the safe management of a company. The optimisation of cash flows allows to cutback financial charges effectively and to improve the company's profitability.

The optimization of cash flows is based on to 2 complementary tools:

Financial planning

A financial plan is a summary document of the projected revenues and expenses of the company over a specific period. It records the present cash flows as well as all the revenue and expenses, estimated or committed, of the company. It can be expenditures and revenue bound to the process of operation, investment or financing.

A financial plan is thus, the forecasted capacity and needs of the company's liquidity, which allows anticipating the fall of short term liability.

A financial plan only accounts for revenues and expenses; it never presents income statement balances nor non-cash items appear in the latter.

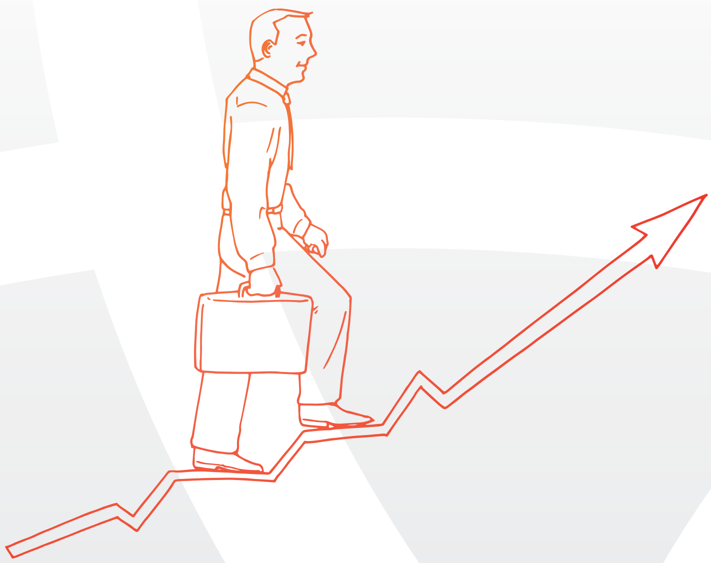
A financial plan is structured in 3 parts:

- **A summary of receivables:** a company's main revenue is generated by sales in the course of its business. Sales can be settled by cash or credit. If the sales have been settled by credit, revenue will be credited on the day, while the transaction leading to cash flow movement could happen 30 or 60 days later. Example: debtors and prepayments

  These cash flows gaps must be taken into account due to the fact that certain collections result from sales realized over the previous period.

- **A summary of liabilities,** grouping all forecasted short term expenses. There are different kinds of expenses within a company, coming from the various budgets listing operating expenses. Example: accruals and creditors
- **A tax summary:** including the collections and disbursements in relation to tax assets (receivables) and liabilities (payables)

Financial planning helps to keep track of working capital's requirement resulting from growth in business.



Cash Flow forecast

The company can filter the assumptions given by the financial plan bringing in alternative means of short term financing and placement of cash surpluses.

Once the forecasted cash flow has been established, the accountant should ask himself the following questions:

- **In case of cash surplus:** What kind of investment would be appropriate? Which amount? What is the investment horizon? Example: Fixed deposits, corporate or state bonds

  As per the company's objectives, management can decrease cash surplus by investing (external growth, development...), by paying off loans, or by settling the suppliers in cash for a discount.

- **In case of overdraft:** What kind of financial support would be appropriate? Which amount? What is the financial support duration?

Optimizing cash flows aims at two fundamental objectives: cover the short-term solvency and optimize the operating and financial profits.

Glossary

Net cash	Cash register + Current accounts + Short term deposits	• Short term deposits: maturity < 3 months
Working capital	Long term assets - Fixed assets	• Positive, it points out a surplus of long term assets over fixed assets. • Negative, it points out that fixed assets are being financed by cash or equity.
Working capital requirement	Stocks + Debtors - Creditors	• It represents the frozen amount of the company to finance its operations (or generated by the latter when the ratio is negative). If the components of the ratio are liquid with a high turnover, their level is relatively stable in steady activity: it is the notion of durability of the working capital requirement.

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