

CASH FLOW

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Good cash-flow management is an integral part of controlling a business. Indeed, a proper business plan will require cash-flow projections from the outset.

‘Cash’ is the total amount of money coming into the business and going out of the business. It will include the amount of any overdraft or loan facility that is available. It is essential to be able to identify the times when the business will have cash surpluses as well as cash shortages.

CASH FLOW FORECASTS

Cash flow forecasts, normally covering 12 month periods, should be prepared for the succeeding 2 to 3 years. The three determining elements in creating such forecasts are:

- Debtors – customers to whom you have sold your products;
- Stocks – the goods you buy in order to sell them, whether these are represented by raw materials or finished goods;
- Creditors – those people you have bought goods and services from, which includes your employees.

The standard cycle of business means that you buy Stock which you turn into Sales (Debtors), which when you have been paid for go to pay your Creditor (suppliers of goods and services other than stock), and to buy more Stock – and the cycle begins again.

SALES PROJECTIONS

From this simple cyclical pattern it can be seen how important sales (turnover) projections are. You decide how much stock to buy in the first place – then calculate how long it will take to sell and be paid for. This will tell you when you can pay your other suppliers (creditors), and, crucially, when and how much more stock you can buy.

CASH FLOW MANAGEMENT

Key elements in cash-flow management, therefore, are going to be:

1. Realistic sales projections, regularly revised upwards or downwards in the light of actual performance.
2. Sensible levels of Stock purchasing based on:
 - Sales trends over chosen periods – being careful to take into consideration seasonal fluctuations;
 - The type of market you are catering for – highly competitive or relatively exclusive – coupled with the kind of product you are selling – slow – moving / high – value or fast moving / low – value, perhaps;
 - The kind of business you are in – for instance, manufacturing will mean taking account of the time needed to turn raw material into finished goods; while wholesaling may mean taking into account lead-times, i.e. how long it takes for the stock you buy in to be delivered by your supplier.

3. Good Debtor management – making sure your customers pay you on time. Only then can you pay any of your bills, including those for more Stock; and only then can you forecast with reasonable accuracy when sales are going to be paid for, and hence when you will be able to pay your bills, including those for stock.
4. Good Creditor management – making sure you can pay for the goods and services you buy, including wages, salaries and taxes (Income Tax and VAT), when you have to.

For further guidance on monitoring cash-flow, many of the leading Banks and large accountancy firms provide easy-to-use flow charts combined with useful ways of calculating likely cash shortages and surpluses. Alternatively, spreadsheets, manual or computerised, can easily be generated.