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Cash Flow Management Activities

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Cash Flow Management

The importance of Cash Flow Management is essential for any organisation. Organizations need to monitor their cash outflows carefully, and inflows to ensure that they can meet their ongoing obligations. We often review cash flow of an organisation including aspects that have an impact on cash flow management. There are several ways in which an organisation can better manage its cash flow situation. We will briefly discuss a few within this post that includes Accounts Receivable (A/R) and Accounts Payable (A/P) management.

Use of Budgeting and Forecasting Information

The use of a detailed budget such as those employed by Zero-Based Budgeting (ZBB) and cash flow projections can form a foundation cash-flow management. With the use of ZBB, an organisation can better anticipate when large expenditures, both capital and operational to plan for these cyclical cycles. The use of a cash-flow projection that includes when revenue or funding should also be used to ensure that the organisation does not run out of current cash. The cash-flow projection is necessary for an organisation for it to focus on its operations and strategy rather than reacting to operational situations.

Evaluating Financial Ratios and Benchmarking

The importance of evaluating the financial ratios related to collections, bad debt should be undertaken and assessed to industry norms. Where possible the company may also need to review industry best practices. Key Performance Indicators (KPI) can also indicate how well a company compared its past performance, especially if after the enhancement of various processes. Internal Process reviews should be undertaken to ensure that these best practices are working as intended and to make adjustments where necessary.

Continuous Monitoring of Cash Flow

The control of cash flow and cash flow projections is not a one-time project, but an ongoing requirement. A proactive approach will allow the organisation to focus on the core organisational activities rather than reacting after the fact to negative cash-flow situations. Experts have noted that cash is the lifeblood of a business and that poor cash flow management is the cause of many business failures.

CASH FLOW MANAGEMENT ACTIVITIES



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Accounts Receivable (A/R) Management

The management of accounts receivable is a major factor for cash-flow management. Encouraging customers to pay early such as offering a slight discount if they pay in net ten rather than the typical thirty days could be considered. Offering customers, the ability to have their invoices sent electronically including the notation of customer cost centres on invoices could facilitate quicker payment. Analytics related to the collections of receivables should be closely monitored including the creditworthiness of clients in order access if credit should be offered or if clients should be requested to pay before or at the time of delivery of products and services.

Before a sale takes place providing customers with an estimate including payment terms can avoid any misunderstandings with the customers, which can facilitate quicker approvals. As well offering customers various payment options such as electronic payment makes it easier to do business. Electronic options also allow for A/R records to be updated immediately thus allowing management has a current A/R Aging report to review rather than only at month-end.

The A/R ageing report should be examined on a regular basis to ensure that receivables are up to date to ensure that the A/R and collections department is working with the most current information. As well a review of un-posted receivables should be done regularly to ensure that customers billings are on a timely basis including reviewing sales orders and shipping documents without matching sales invoices. If not reviewed it may go unnoticed, as such items may not appear in the billing system. A consideration of the effectiveness of the policies and procedures related to sales orders and shipping documents should be reviewed to ensure that the internal controls are working as intended.

Some companies may have recurring sales charges on a monthly, or quarterly basis in such cases it is important to ensure that the internal processes ensure that these bills are produced on time to these

customers to avoid unexpected delays from customers. A review of the sales forecasts related to and comparing recurring items to the actual revenue received to determine if there was a failure to bill customers.

Accounts Payable (A/P) Management

Managing Accounts Payable is essential for cash-flow management. It is important to ensure that A/P invoices are entered into your accounting system on a regular basis to facilitate decision-making and ensure that bills paid within the terms. With such information, a company can better predict when bills are due to make sure that enough cash is on hand for payment. The management of accounts payable is simply a matter of paying the small bills first, but the rather better management of accounts payable taking into account credit terms negotiated with vendors and current cash that is available.

Consider taking advantage of discounts where applicable from your creditors, and electronic payment when amounts are due. There is no one answer with regards to if an early payment discount should be taken or not as that would depend on various situational factors that the company is currently facing related to its operations. When choosing a vendor do not the only factor in price, but also flexible payment terms which are equally as important. An open line of communications with your suppliers when a payment is delayed to maintain their trust and understanding is necessary for mutual understanding.

A properly managed cash flow projection can ensure that a company can focus on its core operations and the overall strategic goals of the organisation.

About the author:

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