Optimising Cash Flow

Optimising your cash flow is understanding what drives cash and knowing what you can change in order to make the most of your cash so you can better plan your business processes.

The Optimising cash flow webinar discusses:

- Cash Gaps
- Long Term Growth
- Monitoring Cash Flow

### Cash Gaps

Understanding how cash flows through a business is the key to getting the best use of your cash. The **Working Capital Cycle** is a tool that shows how cash flows through a business and helps indicate potential blockages that prevent a healthy cash flow.

Cash gaps are the short-term impacts on cash that are caused by timing differences between when a transaction is completed and when you collect the cash or pay the expenses.

#### Scenario A:
When a business makes a sale, it collects cash after the sale is completed. Ideally, payment is received either prior to, or at the time of the transaction. However, it’s also common for payment to occur in the future after an invoice has been issued. The longer it takes to collect payment, the larger the cash gap. The time taken to collect payments can create cash gaps.

#### Scenario B:
As a business increases sales, it needs more cash for additional resources such as stock. However, when the business collects less cash from its current sales than it needs for the additional resources to support future sales, then cash gaps can be created.

#### Scenario C:
The reverse also applies. As a business experiences declining sales the cash collected from earlier sales is more than enough to support the resources needed for the current lower level of sales. This creates cash surpluses.
Long term growth

The Financial Operating Cycle shows how a business sources and uses its financial resources to generate sales and profits. It also shows whether the profits are being retained in the business or distributed to the owners.

![The Financial Operating Cycle](image)

The Financial Operating Cycle is a tool that illustrates that for a business to increase profits and sales, it needs more assets, which in turn requires a source of funding or capital. By implementing growth strategies that accurately forecast future funding requirements, businesses improve their capacity to support growth.

Monitoring your Cash Flow

Preparing and regularly monitoring a cash flow budget enables you to see how your cash is flowing through the business and can assist you to identify upcoming periods of cash shortages or surpluses so you can better plan how to manage them.

Another way of monitoring the health of your cash flow is to use ratios. Some useful ratios are:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Calculation</th>
<th>Measures</th>
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</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>Current Assets/Current Liabilities</td>
<td>capacity to meet short term liabilities</td>
</tr>
<tr>
<td>Net Margin</td>
<td>Net profit/Sales</td>
<td>profitability</td>
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<tr>
<td>Sales to Assets</td>
<td>Total Assets/Sales</td>
<td>asset efficiency</td>
</tr>
<tr>
<td>Stock Days</td>
<td>365/ (Stock/Cost of Sales)</td>
<td>how long stock takes to turn over</td>
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<tr>
<td>Debtor days</td>
<td>365/ (Debtors/Sales)</td>
<td>how long it takes to collect debtors</td>
</tr>
<tr>
<td>Creditor days</td>
<td>365/ (Creditors/Cost of Sales)</td>
<td>how long it takes to pay creditors</td>
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Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.