

# Cash Flow Management

Never run out of money!

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Project No. 2021-1-ES01-KA220-ADU-000033439

# Lesson's Objectives

- Understand the importance of the treasury function
- Become familiar with the concepts of cash and liquidity
- Differentiate between turnover, profit and cash flow
- Tools and techniques to improve the cash flow

# Learning Units

We will go through the following units:

- Treasury
- Cash flow
- Classification of assets on the basis of their liquidity
- How to improve cash flow

# Lets go!



# Cash Flow Management

## Treasury

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# Treasury

- **What is treasury?**

Treasury is the area of accounting that is responsible for controlling a company's money:

- cash inflows and outflows
- cash flow receipts from sales
- payments for expense
- negotiations for loans with banks etc.



# Liquidity

Liquidity management is fundamental for the medium- and long-term stability of the company





# The Treasury's functions

- Allows the company's income and expenses to be **planned** in advance.
- Allows the **management** of the company's liquidity, in particular:
  - Control of cash inflows and outflows
  - Creation of a contingency fund.
- Allows cash planning to meet **tax obligations** on time
  - Tax payments must be made through the treasury. Payment on the due date will avoid fiscal inconveniences (penalties or fines), including a positive assessment towards the treasury department.
- Allows to manage financial risk negotiation tool with banks



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# Cash Flow Management

## Cash-flow key concepts

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# Definition of Cash-Flow

Of all the treasury functions, in this module we focus on cash flow management:

- Cash flow is the net cash of a business over a specific period, i.e. total income minus total expenses.
- Cash flow gives you an insight into the health of your business' finances
- It allows you to know whether you have the liquidity to meet payments to suppliers, creditors, payroll, etc.



A background image showing a group of business professionals in an office setting. One person is holding a smartphone, another is holding a tablet, and there are coffee cups on the table. The scene is brightly lit, suggesting a modern office environment.

## Benefits of an Accurate Cash-Flow Management

- Long-term viability of the company.

It indicates the economic health of the company, allowing you to anticipate future problems or financing needs.

This will allow you to take the appropriate measures to avoid or minimise the negative effects and to create greater stability in the medium and long term.

A background image showing a group of business professionals in a meeting. One person is holding a smartphone, another is holding a tablet, and there are coffee cups on the table. The scene is brightly lit, suggesting an office environment.

## Benefits of an Accurate Cash-Flow Management

- Optimisation of expenses.

Unnecessary, superfluous or even duplicated expenses may appear that represent a significant economic burden for the company.

If you identify them in advance, you will be able to eliminate them and get closer to a positive cash flow.

It will allow you to create a small cash reserve to face unexpected expenses or times of economic difficulties.

# Cash-Flow Management Tasks



Cash management is a time-consuming task and a daily investment.



Checking cash inflows and outflows on a daily basis



Cash receipts and disbursements, advances, credit notes, loans, payment schedules



Drawing up and updating budgets reporting and interpreting indicators



Many elements make this management more complex, so it will be necessary to priorities the items that are most important for your business.

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# Cash Flow Management

## Classification of Assets

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# Classification of Assets

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- How is the liquidity of an asset measured?

Liquidity is the ability of an asset or good to be converted into money in the short term without the need to reduce its price. The most liquid asset in existence is cash.

Money is not normally held in cash, but is invested in different types of physical goods, commodities or financial instruments with the objective of generating a profit.

# Classification of Assets

The following are some of the assets of a company:

- Cash on hand: cash on hand and bank accounts.
- Short-term temporary investments (less than one year) that are made to take advantage of surplus liquidity and make them profitable.
- Debtors: Money owed to the company by actors related to it in its operation.
- Inventories: Goods held by the company with the intention of selling or using as raw materials in manufacturing.
- Goods for sale: Goods that the company decides to put up for sale.
- Permanent investments
- Other assets

# Turnover vs Profit vs Cash-flow

- Turnover: Total sales made by a company in a given period of time without subtracting the costs derived from these sales.
- Profit: The result of subtracting costs from turnover.
- Direct costs: Raw materials
- Indirect costs: Internet, rents, marketing, etc.
- Cash flow: Money you have available to meet business expenses.



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# Cash Flow Management

## Cash-flow Forecast

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# How to make a cash flow forecast?

- Step 1: identify expected revenues and expenditures
- You can do this in a simple Excel table, placing the expected revenues on one side and the expected payments on the other.
- This can be done over different time periods (monthly, quarterly or yearly).
- For an adjusted cash flow calculation, it is very important to know the dates on which cash flows in and out of the company's cash, this date does not have to coincide with the invoice date.

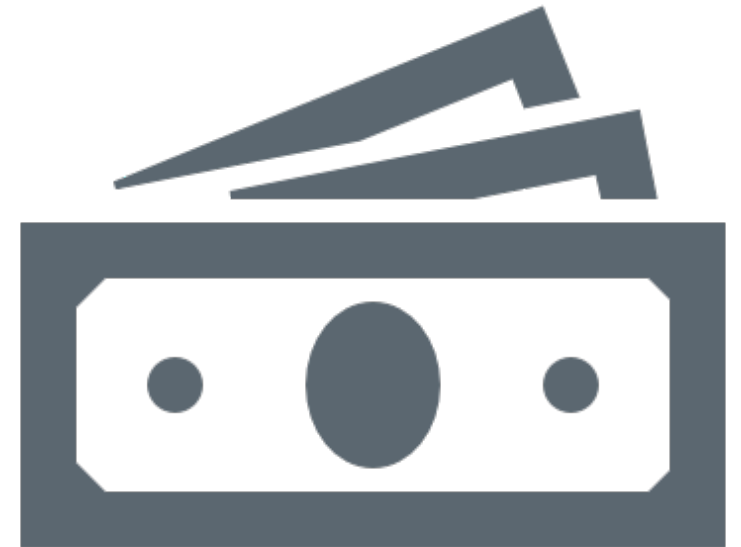


# How to make a cash-flow forecast?

- Step 2: Establish a cash flow plan based on the data obtained.
- You can anticipate recurring or fixed expenses, but also get an idea of the income you will get in a given period.
- You can also design different scenarios and be prepared for any kind of situation, especially those in which your company's cash flow is reduced.

# Possible results of the cash flow analysis

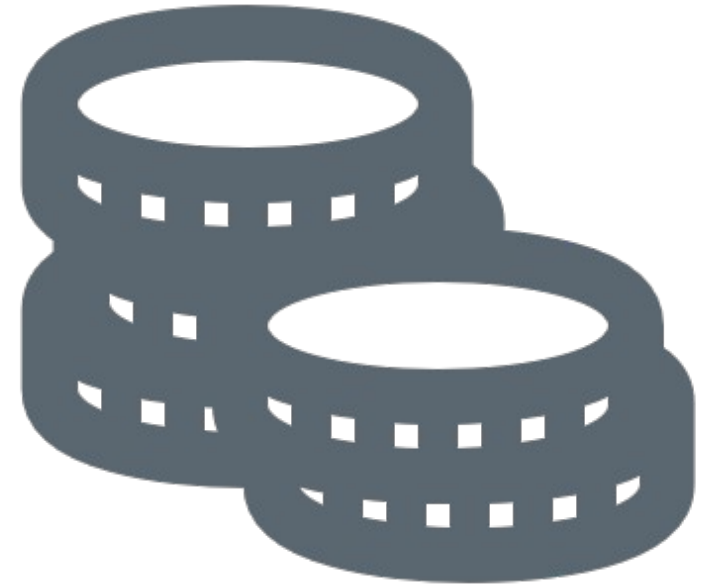
- **Positive cash flow**
- It means that during the chosen period of time, more money will come into the company than will go out. This will generate a cash surplus.
- The cash surplus will allow the company to pay off debts or distribute profits to its shareholders and to make investments that will allow it to grow.





# Possible results of the cash flow analysis

- **Negative cash-flow**
  - This means that more money is going out than is coming into the company.
  - This represents a liquidity deficit situation, i.e. there is a lack of cash to meet the company's payments.
  - In this situation it will be necessary to generate new cash inflows, via sales or additional financing. At the same time it will be necessary to reduce expenses as much as possible.



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# Cash Flow Management

How to improve the cash-flow?

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# How to improve cash-flow?

Improve the business cycle:

- Shortening the customer collection cycle
- Negotiate the payment cycle to suppliers

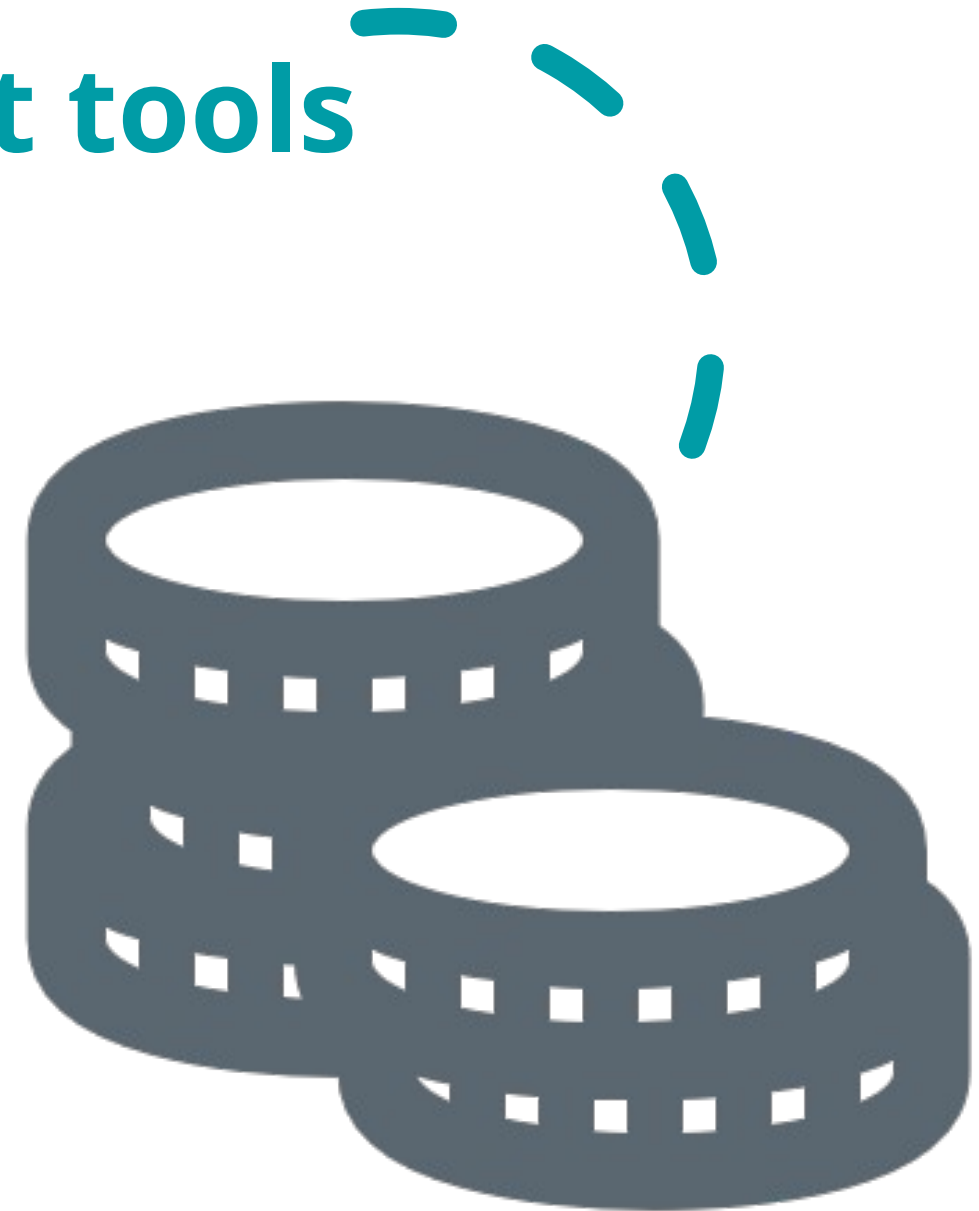
If this is not possible:

- Use credit to finance the company's operations.
- Factoring
- Diversify customers and suppliers

# Cash-flow management tools

There are basically two type of tools:

1. The ones that give weight to manual work and keep much of the cash-flow tasks out of the digital realm.
  - This option places much of the responsibility on the human factor which, as we know, it is not accurate sometimes
2. The ones that uses cash-flow management software that allows everything to be managed electronically.
  - This allows you to closely monitor the payment of invoices, the comparison between forecast and actual cash flow, and to automatically generate cash flow reports.
  - Reduce human errors.



# Cash-Flow management tools



There are a multitude of digital cash flow management tools available in the market.



Our recommendation is to start by creating your own template in Microsoft Excel that is suitable for the specific characteristics of your business.



See the reference section video on how to create a cash flow tool in Microsoft Excel

# Cash Flow Calculation

	Enero	Febrero	Marzo	Abril	Mayo	Junio	Julio	Agosto	Septiembre	Octubre	Noviembre	Diciembre	Total
<b>COBROS OPERATIVOS</b>	46.119	46.119	46.119	46.119	46.119	46.119	46.119	46.119	46.119	46.119	46.119	46.119	553.428
Producto A	1.245	1.245	1.245	1.245	1.245	1.245	1.245	1.245	1.245	1.245	1.245	1.245	14.940
Producto B	19.541	19.541	19.541	19.541	19.541	19.541	19.541	19.541	19.541	19.541	19.541	19.541	234.492
Producto C	25.333	25.333	25.333	25.333	25.333	25.333	25.333	25.333	25.333	25.333	25.333	25.333	303.996
<b>PAGOS DIRECTOS</b>	21.100	21.100	21.100	21.100	21.100	21.100	21.100	21.100	21.100	21.100	21.100	21.100	253.200
Compra Materia Prima A	7.500	7.500	7.500	7.500	7.500	7.500	7.500	7.500	7.500	7.500	7.500	7.500	90.000
Compra Materia Prima B	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	5.000	60.000
Transporte	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	48.000
Gasto de Personal Directo	4.600	4.600	4.600	4.600	4.600	4.600	4.600	4.600	4.600	4.600	4.600	4.600	55.200
Sueldos y Salarios	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	4.000	48.000
Seguridad Social	600	600	600	600	600	600	600	600	600	600	600	600	7.200
<b>PAGOS INDIRECTOS</b>	3.740	3.740	3.740	3.740	3.740	3.740	3.740	3.740	3.740	3.740	3.740	3.740	44.880
Alquileres	650	650	650	650	650	650	650	650	650	650	650	650	7.800
Suministros	250	250	250	250	250	250	250	250	250	250	250	250	3.000
Impuestos	140	140	140	140	140	140	140	140	140	140	140	140	1.680
Gastos de Personal Indirecto	2.700	2.700	2.700	2.700	2.700	2.700	2.700	2.700	2.700	2.700	2.700	2.700	32.400
Sueldos y Salarios	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	2.500	30.000
Seguridad Social	200	200	200	200	200	200	200	200	200	200	200	200	2.400
<b>PAGOS OPERATIVOS</b>	24.840	24.840	24.840	24.840	24.840	24.840	24.840	24.840	24.840	24.840	24.840	24.840	298.080
<b>FLUJO DE CAJA OPERATIVO</b>	21.279	21.279	21.279	21.279	21.279	21.279	21.279	21.279	21.279	21.279	21.279	21.279	255.348
<b>FINANCIACIÓN AJENA</b>	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40	-40	-480
Entrada de financiación ajena	250	250	250	250	250	250	250	250	250	250	250	250	3.000
Circulante	250	250	250	250	250	250	250	250	250	250	250	250	3.000
Largo Plazo	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortizaciones de financiación ajena	290	290	290	290	290	290	290	290	290	290	290	290	3.480
Circulante	250	250	250	250	250	250	250	250	250	250	250	250	3.000
Largo Plazo	40	40	40	40	40	40	40	40	40	40	40	40	480
<b>INTERESES Y COMISIONES</b>	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-24
Pago de intereses y comisiones	2	2	2	2	2	2	2	2	2	2	2	2	24
Cobro de intereses y comisiones	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>OPERACIONES DE CAPITAL</b>	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-60
Pago de dividendos	0	0	0	0	0	0	0	0	0	0	0	0	0
Aportación de socios	10	10	10	10	10	10	10	10	10	10	10	10	120
Reducciones de capital	15	15	15	15	15	15	15	15	15	15	15	15	180

# Treasury Management Tools

- Finally, we invite you to explore some of the digital cash flow management tools and applications available on the Android platform.
- Please refer to the “Want to know more section in the platform”





Thank you

