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ORIGINAL ARTICLE

The Exposure of Cash Flow Statement and Management in This Dispensation of Business Challenges

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ABSTRACT

This article understudied the attitudinal approaches to Cash Flow Statement & Management by both professionals and non-processionals in this competitive period of business and administrative activities. Failure in today's competitive markets had been linked to poor uncoordinated understanding of cash flow statement and management preparation, presentation and implementation. Professionals/quarks have continuously and consistently deviated from the norms. Related literatures reviews were made and methodology was secondary data with analysis, conclusion. Recommended were: operating-cash-flow ratio to grasp ability to pay bills, prompt collections from debtors/bills payment with mentor/adviser leveraging professionals, learning from peers/experts, prudent expenses, delay capital spending, constant knowledge available cash balance, figure out burn rate, no panic when cash is out, but know-well how and when it will come back, forestall business failure, adopting the applicable standards with little or no deviation from the standard using electronic spreadsheet.

Key words: *Exposure, Understanding, Cash, Flow, Statement, Management, Survival, Results*

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INTRODUCTION

In this competitive business activity where investors choose to get into any presumed profitable business without proper feasibility studies, it is paramount for the cash flow statement and management to be properly prepared in line with the appropriate norms. Most companies prepare statements of cash flows using the indirect method which provides information about the cash receipts, payments and statement intended to provide investment information and financing activities to assist investors, creditors in assessing factors as-

1. ability to generate adequate and positive cash flows in future periods
2. ability to meets its needed and legal obligations
3. need for external financing
4. get to find the reasons for the differences between the amount of net profit and the related net cash flow from operating activities
5. find out both the cash and non-cash aspects of the organisation's investments and financing transactions
6. causes of the change in the amount of cash and its equivalents between the beginning and end of the accounting period.

Categories of cash flow statement are from-

1. operating activities
2. investing activities
3. financing activities

It is appropriate to remind everyone the importance of cash flow statement and management, the acceptable way to prepare it according to the required standard. It enables the tracking of cash as it flows in and out of the business and reveals the causes of cash flow shortfalls and surpluses. If these activities are favourably, then it sends a message to the owner that the business is self-sufficient in funding its daily operational cash flows internally. We have this old adage that "cash is king" and, if that's so, then cash flow is the blood that keeps the heart of the kingdom pumping. It is one of the most critical and relevant components for the success of business. Without it, profits are meaningless and useless. According to Lesonsky, 1998 many a profitable business on paper had ended up in bankruptcy because the amount of cash coming in does not compare with the amount of cash going out. If the cash flow statement and management are not properly given due diligence, the business is bound to fail and firms without good cash management might not make good investments decision.

RESEARCH METHODOGY

Secondary reviews were used for this work where relevant publications were consulted.

CASH FLOW DEFINITION AND PROFIT RELATIONSHIP

This is mainly the movement of funds in and out of business entity for proper management, tracked weekly/monthly/quarterly. Kinds of cash flows-

1. Positive/Sweet: is when the cash entering into the business from sales, accounts receivable is more than the amount of the cash leaving the businesses.
2. Negative/Bitter: is when the outflow of cash is more than the incoming cash, a generally signal of trouble for the business with steps an investor could apply to remedy the situation and generate more cash while maintaining expenses.

Swimming in the river of a positive/sweet cash flow does not come by chance but with efforts. From research findings, cash flow does not equal profit. A business owner cannot just look at the profit and loss statement and conclude the position of the business cash flow. Many other financial figures come to play into factoring the cash flow - accounts receivable/ payable, inventory, capital expenditures, and debt service. Smart cash-flow management requires a laser focus on each of these drivers of cash, in addition to profit or loss. "There is a secret that very few business owners have discovered: knowing whether you earned a profit/loss is not the same as knowing what happened to your cash," According to Campbell (2013), profit is defined by the rules of accounting, which is simply revenue minus expenses. Collecting the money on that invoice creates cash." A positive/sweet cash flow is actually needed to generate profits to pay employees and suppliers for goods supplied. Where there is no enough money to make goods available for sale, profit would not be made. Most business investors wrongly perceive adequate cash flow as profit. To effectively and efficiently grow and increase profits, the investor needs to structure the business for positive cash flow. A well structure cash flow should be able to lift any business above set bench mark. Growing your business puts a huge strain on cash.

CASH FLOW MANAGEMENT IMPROVEMENT

Research has found out that most investors recognize growth as the solution to a cash-flow problem. That's why they often achieve their goal of growing the business only to find they have increased their cash-flow problems in the process and appropriate to plan for growth and the related cash outlays in advance, so they do not come as a surprise. SBA (2012) recommended that an investor could take the following practical steps to better manage cash flow: 1. Prompt Collection of receivables, 2. Proper Tightening of credit 3. Desire to Increase sales 4. Avail reasonable price discounts. 5. App and Secure credit facilities. Effective management cash flow controls are: 1. what is my cash balance right now? 2. What do I expect my cash balance to be in six months?

THEORETICAL/CONCEPTUAL STANDARD

The need for the cash flow statement and management arose from concerns that certain organisations that were very profitable suddenly ran into financial problems that were not taken into consideration on time. Former instruments of income statement, balance sheet and statement of sources and application of funds did not seem to help predict such situations. Based on the competitive nature of business where anything can be assumed to go, it has become necessary to have a tool of analysis that focused on cash and near cash required for day-to-day survival of the organisation whatever their profitability performance. Cash flow is to be designed to meet the need of organisations. A standard for this statement was established as IAS 7, International Standard Cash Flow Statements. In Nigeria, we have the NASB as SAS 18, Standard on Cash Flow Statements. It became operation from January 01, 1998. It helps users to reconcile profit performance with the statement of the organisation, the quality of profit or loss achieved, examines the capacity to meet constant financial obligations, in the assessment the impact of current transactions on performance and financial health. It was found to be a better indicator of corporate liquidity than sources and application of funds. For an appropriate Cash Flow Statement & Management, it is right to mention the Classification Components: 1. Operating activities, 2. Investing activities 3. Financing activities. For an effective cash flow management and statement, operating of normal activities vis-a-vie production, delivery of goods or service, receipts of payments and other support series are very crucial for consideration. They are transactions that determine operating profit. Example:

Cash Receipts	**Cash Payment**
For goods and services	*For goods and services*
Dividend from investments	*Wages and salaries*
Other inflows from operations	*Overhead expenses*

Cash flow management and statement relating to this activity are:

Cash Receipts	**Cash Payment**
From issue of equity	*Amount borrowed*
From debenture	*For capital issue*
From bank facilities	*Interest on dividend*

Financial activities provide information about the sources and uses of cash over a period of time. Cash Flow Statement & Management provide for proper management of business under the competitive environment of what: 1. amount of cash is to be generated by operators? 2) is to be the source of cash invested in new plant and equipment? 3) use is to be made of cash provided by operators? 4) was made of cash derived from a new bond issue or the sale of stock? The Conceptual Framework is predicated upon the relationship between finite/(limited) sources of cash and potentially infinite/(unlimited) uses of cash. No matter how successful a business may be, its sources of cash are limited while potential uses of cash are usually unlimited.

Cash Gaps	**Need for External Funding**
Internal sources less planned uses = Surplus	*None*
Internal sources less planned uses = Small Gap	*Low*
Internal sources less planned uses = Big Gap	*High*

IDENTIFICATION OF NON-CASH TRANSACTIONS

There are lots of non-cash transactions which do not involve current movements of cash but have substantial effect on prospective flows of the business. These are- 1. Acquisition of assets by assuming; 2. Exchange of non-monetary assets; 3. Refinancing of goods; 4. Conversion of debts or preference shares to ordinary shares; 5. Issue of equity to retire debts; 6. Bonus issues. These transactions are not incorporated in the cash flow statement but disclosed in the notes to the financial statements in a way that provides relevant information about their cash flow implications and appreciate Cash Statement & Management in Business Competition by way of the report capturing all relevant materials. A Cash budget is a projected statement of future cash flows involving very strictly transactions of movement of cash through the projection of future cash receipts and payments. With this information, the financial manager is better able to determine the future cash needs of the business, plan for the financing of these needs and exercise control over the cash liquidity of the business. For near term forecast, month periods probably are most frequently used because they take into account seasonal variations in cash flow preparations. Cash budget is as useful as the accuracy of the forecasts preparation. The longer the forecast the less reliable the statement becomes. Basic rules in preparing Cash Statement are: 1. Take into account all receipts forecasted over a period; 2. Take into account all disbursements over the same period; 3. Recognise financing and investing activities; 4. Arrive at the net position: surplus/deficit; 5. Add opening period balance; 6. The final figure is the period closing balance.

DIVISION OF CASH FLOW STATEMENT

1. Net cash flow from operating activities for daily internal activities.
2. Net cash flow from investing activities is discretionary investments by management.
3. Net cash flow from financing activities are those external sources/uses of cash.
4. Net change in cash and marketable securities.

Research has indicated that the results of the first three calculations were used to determine the total increase/decrease in cash and marketable securities caused by fluctuations in operating, investing and financing cash flow. Cash flow management means delaying outlays of cash as long as possible while encouraging inflow.

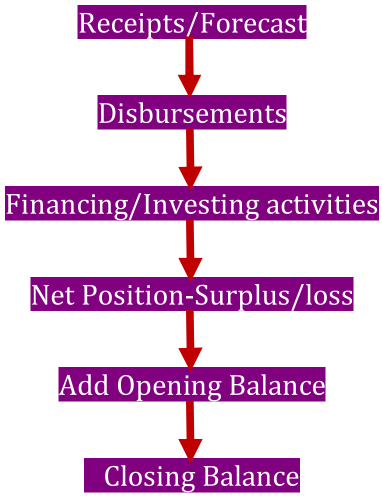
COMPETITIVE BUSNIESS ENVIRONMENT

Investing activities generally use cash because they are more likely to acquire new fixed assets than to sell old ones. When a company does need cash to fund investing activities in a given year, it must come either from an internal operating cash flow surplus/financing activity increases/cash reserves built up in prior years. It represents the external sources of funds available to the business when a company has shortfalls.The reverse is often true when operating activities are a source of excess cash flow, as the overflow often is used to reduce debt. The increase/decrease in cash figure at the bottom of the cash flow statement represents the net result of operating, investing and financing activities as a key number.

Financial statements are critical budgeting tools to seek to achieve financial milestones in business. Rieva (1998) discussed the requirements to start a business. When sales slump and costs rise, cash can claim a far more grandiose title: emperor of the universe, anyone? No matter how lofty its status/how stressful the environment, keeping cash flowing comes down to two things: accelerating the stream of cash coming in and slowing its outgo. Tom Long, founder of Solid Oak Consulting said, entrepreneurs need to take an especially creative approach to maintaining cash flow. Ideas relevant in competitive business are-

1. Reduce the amount of cash consumed by salaries and wages;
2. Cut cash devoted to R&D by letting other companies iron out wrinkles in new products.
3. Lower taxes by buying another company that has "tax loss carries forwards.

Fig. 1: Movement of Cash Flow



(Source: Researcher's Survey)

The Importance of Cash Flow includes: 1. For the survival of a business; 2. It is more comprehensive than profit based on accounting conventions/ concept; 3. Creditors are more interested in their returns than in its profitability; 4. It provides a better means of comparing the results of different businesses.

UNDERSTANDING CASH FLOW MANAGEMENT

Academic researches over the years have found that cash flow problems could be one of the leading causes of failure for businesses. A study reported in August from Equifax, the credit reporting agency, found that bankruptcies among the nation's 27 million small businesses leaped by 81 percent between June 2008 and June 2009. While the U.S. Small Business Administration (SBA) estimated that about 600,000 new small businesses were launched each year, a 2007 study reported in the U.S. Bureau of Labor Statistics' Monthly Labor Review indicated that two-thirds would only survive two years, 44 percent survived four years, and 31 percent survived for at least seven years. Scholars have found over the years that insufficient capital is one of the main reasons for small business failure, lack of experience, poor location, poor inventory management and over-investment in fixed assets, said the SBA. Dunn and Bradstreet (2011) said 90% of small-business failures were caused by poor-cash flow preparation. To prevent becoming part of the 90%, the business maintains a certain reverence for cash. Good cash-flow management means understanding every inflow/outflow of cash.

KEY CASH FLOW PRINCIPLES

1. Documenting projections.
2. Being on budget but out of cash.
3. Being profitable but broke.
4. Seasonal sales fluctuations.
5. Unanticipated expenses and emergencies.
6. New businesses with new terms.
7. Sales volumes to always keep up with marketing expenses.
8. Even good customers can make a late payment.

REDUCING BUSINESS EXPOSURE AND CASH FLOW MANAGEMENT TREND

1. Keeping a watchful eye on money is crucial particularly start-ups and small businesses. Learning proper cash management techniques early would reap the rewards of hard work later.

2. The concepts behind successful business cash management are similar to what consumers hear from experts.

Budgeting and planning are important and setting money aside for unforeseen. Every line item in the operating expenses, calculate the naira amounts and percentages of revenue. The accounting reporting software/qick books should be able to spit out reports like comparing the numbers to last month, the last three months, and the average of the last three months (called rolling average), average year-to-date and the same month last year. According to McNamara (1999)., one of the most important financial management exercises is the creation and use of a budget-the examination of all your expenses and estimation of what they will be next year by comparing "actuals" to budgets**.** The use of a dashboard boils down actual to the absolutely most significant numbers and trends which compile them into an easy-to-read dashboard. There are dashboard programs available for businesses of all shapes that can extract the data from bookkeeping software and post the numbers automatically which allows the management team to instantly spot trends and problems on a weekly-or even daily-basis. Industry trade associations for data, as expense ratios, and ask other local businesses that are roughly the same size to share their expense. Cash is what keeps business functioning and need profit, but equally as critical is cash flow.

CASH IN AND OUT

There are things that take cash out of the business that do not classify as expenses and might not appear on profit and loss statement: Payment of loan principal, credit card principal and owner's draws. They take cash out of the business and show up on cash flow statement, but not on profit and loss statement. According to Alan (2014), money borrowed from a lender is not counted as income and when paid back, it is not counted an expense. Owner's transactions affect business equity. Cash in and out factors are-

1. **Operations Activities:** day-to-day operations, Increases or decreases in receivables and payables accounted for on cash flow statement. Long-term business health comes from having a good net profit and positive cash flow from operating activities.
2. **Investing:** The purchase and sale of long-term fixed assets-property, plant and equipment.
3. **Financing Activities:** the borrowing and repayment of long-term liabilities. Understanding what the cash flow statement is telling about the business balance sheet, profit and loss statement, and relay a different views and each is critical to the overall health of the business. The cash flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance.

CASH FLOW MEASUREMENT AND SHORTFALLS SURVIVING STRATEGIES

An accurate cash flow projection could alerts to trouble well before it strikes. Cash flow plans are not glimpses into the future but educated guesses that balance a number of factors, including customers' payment histories, thoroughness at identifying upcoming expenditures, and vendors' patience are considered. Projection could commence by adding cash on hand at the beginning of the period with other cash to be received from various sources. According to Faboyede, *et al.,* (2013), accurate cash flow projections principle is having detailed knowledge of amounts and dates of upcoming cash outlays meaning knowing when each kobo would be spent and on what. Having a line item on projection for every significant outlay-rent, inventory/ purchased for cash, salaries, wages, sales and other taxes withheld/payable, benefits paid, equipment purchased for cash, professional fees, utilities, office supplies, debt payments, advertising, vehicle and equipment maintenance and fuel, and cash dividends. According to Steve (2012); "As difficult as it is for a business owner to prepare projections, it's one of the most important things one can do," Specific techniques are: 1. Offer discounts to customers who pay their bills rapidly; 2. Ask them to make deposit payments at the time orders are taken; 3. Require credit checks. Businesses find themselves in a situation where they lack cash to pay: 1. Becoming aware of the problem as early and as accurately as possible. 2. Consider using factors which can pay today for receivables. 3. Customers could be asked to accelerate payments by explaining the situation and offer a discount. 4. Choosing the bills to pay can be done carefully by paying all.

POSSIBLE CHARTING OF A PATH

By using a cash flow statement from the beginning could get business started down the right path. Researched showed that for 'trep Adam (2013) of Plainview, Minnesota, it was the difference between opening a pet store-his original plan-and a pet-sitting service. Because he loved animals, he thought it would be fun to start a pet shop. However, a quick check of the costs to open/ operate a store sent him back to the drawing board for a more feasible pet-oriented venture. Since the beginning of AJ's Pet Sitting Service, His cash-flow statement had helped him take the steps to ensure his new business would maintain its positive cash flow. These steps could be followed-

1. Knowing what to expect where Adami's cash-flow forecast provided a rough estimate of how much his business could expect in receipts each month
2. He cuts costs by temporarily suspending his advertisement in the local newspaper
3. Making projections for the future is important.

RECOMMENDATIONS

1. Look at the operating-cash-flow ratio to grasp ability to pay bills.
2. Start with the naira amount of cash flow generated divided by the current liabilities.
3. Remember to always call debtors to make payment.
4. Do not delay paying own bills in order to conserve cash.
5. Endeavour to have a Mentor/Adviser

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