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Conquering Cash Flow:
A Technological Revolution to Financial Management

Today's Presenter – Deborah Defer



- Top 100 ProAdvisor 2015-2023
- Top 10 ProAdvisor 2015 & 2022
- Technology Nerd
- CAS Influencer and Advocate

Learning Objectives

1. Develop a comprehension of the fundamental principles underlying cash flow in finance.
2. Gain Insights of the various technology tools that can be utilized to demonstrate cash flow.
3. Learn how to translate theoretical knowledge into practical advisory services for clients.
4. Identify innovative solutions and software applications that can aid in forecasting, analysis, and decision-making related to cash flow.
5. Explore the intricacies of operating, investing, and financing activities that contribute to the overall cash movement within a business.



Our Agenda Today

- Introduction to Cash Flow
- Understanding Cash Flow Statements
- Use Cases
- Technology Practical Applications
- Conclusion

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Introduction Cash Flow

Cash Flow

- Definition of Cash Flow
 - Cash Inflows and Cash Outflows
 - Importance of cash flow in financial management

- Objectives of Cash Flow Analysis
 - Assessing liquidity
 - Evaluating financial health
 - Supporting decision-making

Components of Cash Flow Outflows

Operating Activities

- Definition
- Importance of positive operating cash flow

Investing Activities

- Definition
- Impact on long-term growth and assets

Financing Activities

- Definition
- Influence on capital structure and shareholder value

Cash Flow Analysis and Interpretation

Liquidity Assessment

- Current Ratio & Quick Ratio
- Role of cash flow

Investment Decision-Making

- Evaluating investment opportunities
- Using cash flow metrics

Risk Management

- Identifying financial risks
- Mitigating risks through cash flow analysis

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Understanding Cash Flow Statements

Calculating Cash Flow

- Direct Method
 - Explanation of direct cash flow statement
 - Example of calculation

- Indirect Method
 - Explanation of indirect cash flow statement
 - Adjustments to Net Income

Types of Cash Flow

Positive Cash Flow

- Benefits & Implications
- Example

Negative Cash Flow

- Risks & Challenges
- Strategies for addressing negative cash flow

Neutral Cash Flow

- Balancing Inflows & Outflows
- Considerations for maintaining neutral cash flow

FAQ'S	
What is a good cash flow ratio?	A cash flow ratio greater than one indicates good financial strength. A ratio lower than one suggests that the company may have trouble repaying its short-term liabilities. A higher cash flow ratio is, thus, considered better.
Is cash flow the same as operating cash flow?	Operating cash flow refers to the amount of cash generated from a business's primary activities. The total cash flow includes operating cash flow as well as the money generated from other activities such as investing and financing.
What is the operating cash flow ratio?	The operating cash flow ratio equals cash flow from operations divided by current liabilities. It tells how many times a company can pay off its short-term debts with the cash generated in the same period
What affects operating cash flow?	The factors that affect operating cash flow are sales, inventory, accounts receivable, accounts payable, and non-cash expenses such as depreciation and amortization.
Why is operating cash flow important?	Operating cash flow metrics are used to benchmark the financial strength of a business and track how much cash it can generate from its day-to-day operations.
What is KPI in cash management?	Cash management KPIs evaluate the effectiveness and performance of cash management practices within a business. They provide insights into various aspects, such as liquidity, cash flow efficiency, working capital management, and risk exposure.
How do you measure cash management efficiency?	Cash management efficiency is measured through metrics like cash conversion cycle, days sales outstanding, accounts payable days, cash to cash cycle time, and <u>cash flow forecast</u> accuracy. By tracking these metrics, businesses can identify areas for improvement to optimize cash flow.

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Use Cases

Real World Examples

- Real Estate Company
 - Key Performance Indicators (KPIs)
 - Cash Flow Example
- Golf Course
 - Dashboard
 - Graphs and Charts



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Technology Practical Applications

KPI	Description	Formula
DSO-Days Sales Outstanding	The average number of days a business takes to collect payments after a credit sale has been made.	Average Receivables/total credit sales x number of days in the period (must use same given period for each)
DPO-Days Payable Outstanding	The average number of days a business takes to pay its suppliers	Accounts Payable x the number of days/Cost of Goods Sold Cost of Goods sold = Beginning Inventory + purchases - closing inventory
ART-Accounts Receivable Turnover	The ratio of net credit sales to average accounts receivable for a given time period.	Total Credit Sales/Average Accounts Receivable
APT-Accounts Payable Turnover	The number of times a company pays its creditors or suppliers in a given time period.	Total Credit Purchases/[Starting Accounts Payable + Ending Accounts Payable/2]

KPI	Description	Formula
Current Ratio	The ratio of current assets to current liabilities.	Current assets/current liabilities (*includes A/R and A/P & Accrued Expenses)
FCF-Free Cash Flow	The money available to a business to repay its creditors and pay interest and dividends to investors.	Operating cash flow – Capital Expenditures
CFCR-Cash Flow Coverage Ratio	The ratio of cash flow from operations to the total debt.	Cash Flow from Operations/total debt *100
CCC-Cash Conversion Cycle	Also known as a net operating cycle or cash cycle, measures how long a company takes to convert its inventory and investments to cash.	Days Inventory Outstanding+DSO-DPO
Operating Cash Flow Margin	The ratio of operating cash flow to the total sales revenue in a given period.	Cash Flow from Operating Activities/Net Sales *100
Forecast Variance	This measures the difference between your cash forecasts and the actual outcome.	Actual outcome-Forecast Value/Forecast Value *100

Technology Apps-Cash Flow tools

- Syft Analytics
- Jirav
- Qvinci
- Reach Reporting
- Spotlight Reporting
- Fathom
- QBO Advanced Reporting
- Cash Flow by Finagraph

<https://quickbooks.intuit.com/app/apps/search?searchTerm=cash%20flow&queryID=e03d95f9c9f258399b18bbbf90113a05>

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Conclusion

Wrapping up



Recap Key
Concepts

Concerns

Ongoing
Learning

Key Takeaways

We discussed the fundamental concepts throughout the session regarding cash flow management.

We highlight key strategies such as budgeting, forecasting, and liquidity management, emphasizing the practical applications in various business scenarios.

These core concepts will solidify your understanding as it relates to the significance of managing cash flow effectively.



Typical Concerns

- 1. Insufficient Cash Reserves:** Many businesses worry about not having enough cash on hand to cover their short-term obligations such as payroll, rent, and utilities. This concern becomes especially critical during economic downturns or periods of low revenue.
- 2. Seasonal Fluctuations:** Businesses that experience seasonal fluctuations in sales may struggle with managing cash flow effectively throughout the year. They may have surplus cash during peak seasons but face shortages during slower periods.
- 3. Delayed Payments:** Delays in receiving payments from customers or clients can disrupt cash flow projections and create cash flow gaps. This concern is particularly common for businesses that offer credit terms to their customers.
- 4. High Overheads:** Businesses with high fixed costs or overhead expenses may find it challenging to maintain positive cash flow, especially if revenue streams are inconsistent or unpredictable.
- 5. Debt Servicing:** Servicing debt obligations, such as loan repayments or interest payments, can put a strain on cash flow. Businesses may worry about their ability to meet these financial commitments while still funding day-to-day operations.
- 6. Unexpected Expenses:** Unexpected expenses, such as equipment breakdowns, regulatory fines, or legal fees, can significantly impact cash flow if they are not adequately planned for or covered by insurance.
- 7. Lack of Visibility:** Limited visibility into future cash flow projections or inaccurate forecasting can make it difficult for businesses to anticipate cash flow gaps and take proactive measures to address them.
- 8. Risk Management:** Businesses may be concerned about external risks such as changes in market conditions, shifts in consumer behavior, or geopolitical events, which can affect their cash flow stability.

Ongoing Learning

The importance of continuous learning and implementation of cash flow management techniques is an ongoing process that requires adaptability and proactive decision-making

I encourage participants to remain engaged in furthering their knowledge on this subject and actively apply the strategies discussed to optimize their financial performance.

By fostering a commitment to ongoing learning and implementation, participants can effectively navigate the complexities of cash flow management and drive sustainable growth within their organizations.



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QUESTIONS?



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