CASH FLOW MANAGEMENT

Key insights for your business

YOUR KEY INSIGHTS START HERE

Without sufficient cash, you can't run a business. Or at least not efficiently. The value of a cash flow forecast is sometimes underestimated and that's a shame. It gives you simple but essential insights that allow you to anticipate the future and make the right financing or investment decisions. In this guide you will learn how good cash flow management contributes to:

Better insights into the financial health of your business. Are you running out of money, do you need to cut overhead costs or sell more?

Better insights into the pursuit of your business objectives. Is there room for investment in new products or for hiring additional employees?

Better insights into your financial needs. If your business has seasonal activities, you can see whether the income in the peak period is enough to cover the expenses in the off-peak period.

Need help with making your cash flow forecast? Download the free template.

WHAT IS CASH FLOW MANAGEMENT?

A cash flow plan consists of insightfully mapping all (expected) income and expenses. It is usually drawn up for a certain period (from a week to a year) and gives you an overview of the cash flow that your company manages. To have an accurate picture of the financial health of your business, this plan needs to be complete, i.e. include all (expected) transactions in the correct period.

Note that making a purchase (cost) or closing a sale (revenue) does not always equate to a cash expenditure or receipt. Cash payments are immediately available to operations, but if you invoice your products or services, you must deal with payment terms.

If your company can meet its working capital needs without attracting additional financing, it will usually be profitable.

2	XYZ BV																
3	10/2/2022																
50	Financiële opbrengsten [+]		0%	872	765	65	66	68	69	70	72	73	75	76	78	79	81
52	Financiële kosten [-]		0%	76	67	6	6	6	6	6	6	6	7	7	7	7	7
53	Kosten van schulden		0%	76	67	6	6	6	6	6	6	6	7	7	7	7	7
54	Overige financiële kosten		0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
56	Uitzonderlijk resultaat		0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
57	Uitzonderlijke opbrengsten [+]		0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
58	Uitzonderlijke kosten [-]		0%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60	Belastingen op het resultaat [-]	20% tarief VENB		-424199,0358	-465.119	-31.628	-32.261	-32.906	-33.564	-34.235	-34.920	-35.618	-36.331	-37.057	-37.799	-38.554	-39.326
62	**Netto resultaat**		**153%**	**1.696.796**	**1.395.358**	**126.512**	**129.043**	**131.624**	**134.256**	**136.941**	**139.680**	**142.474**	**145.323**	**148.229**	**151.194**	**154.218**	**157.302**
63																	
64	**CASH FLOW**				**12-2021**	**01-2022**	**02-2022**	**03-2022**	**04-2022**	**05-2022**	**06-2022**	**07-2022**	**08-2022**	**09-2022**	**10-2022**	**11-2022**	**12-2022**
65																	
66	**Liquiditeiten op het begin van de periode**				**50.000**	**50.000**	**48.301**	**146.333**	**301.028**	**414.347**	**575.292**	**739.455**	**822.136**	**992.932**	**1.167.143**	**1.254.885**	**1.436.135**
68	**Operationele cash flow**			**1.571.009**		**-1.699**	**98.032**	**154.695**	**113.320**	**160.945**	**164.164**	**82.681**	**170.796**	**174.212**	**87.741**	**181.250**	**184.875**
69	Netto resultaat			1.696.796		126.512	129.043	131.624	134.256	136.941	139.680	142.474	145.323	148.229	151.194	154.218	157.302
70	Aangepast voor afscrijvingen [+]			-7.410		-553	-564	-575	-586	-598	-610	-622	-635	-647	-660	-673	-687
71	Mutatie in de behoefte aan bedrijfskapitaal			1.593.796		0	99.765	156.463	115.123	162.784	166.039	84.594	172.747	176.202	89.772	183.321	186.987
72	*Handelsvorderingen [+]*	30 dagen klanten		*1.214.006*		*0*	*99.765*	*101.760*	*103.795*	*105.871*	*107.988*	*110.148*	*112.351*	*114.598*	*116.890*	*119.228*	*121.612*
73	*BTW betaald [-]*	2 frequentie BTW		*-148.610*		*0*	*0*	*0*	*-34.975*	*0*	*0*	*-55.130*	*0*	*0*	*-58.504*	*0*	*0*
74	*Handelsschulden [-]*	45 dagen leveranc		*538.980*		*0*	*0*	*54.703*	*55.797*	*56.913*	*58.051*	*59.212*	*60.396*	*61.604*	*62.836*	*64.093*	*65.375*
75	*BTW hersteld [+]*			*-70.580*		*0*	*0*	*0*	*-3.494*	*0*	*0*	*-29.636*	*0*	*0*	*-31.450*	*0*	*0*
76	*Andere mutaties bedrijfskapitaal [-/+]*			*0*		*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
78	**Cash flow uit investeringen**			**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
79	Aanschaf/verkoop van (im)materiële vaste activa [-/+]			0		0	0	0	0	0	0	0	0	0	0	0	0
80	Aanschaf/verkoop van financiële vaste activa [-/+]			0		0	0	0	0	0	0	0	0	0	0	0	0
82	**Cash flow uit financieringen**			**0**		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
83	Verhoging van financiële schuld [+]			0		0	0	0	0	0	0	0	0	0	0	0	0
84	Afname van financiële schuld [-]			0		0	0	0	0	0	0	0	0	0	0	0	0
85	Storting van dividenden en vergoedingen [-]			0		0	0	0	0	0	0	0	0	0	0	0	0
86	**Andere mutaties [-/+]**			0		0	0	0	0	0	0	0	0	0	0	0	0
88	**Mutatie in liquiditeiten**			**1.571.009**		**-1.699**	**98.032**	**154.695**	**113.320**	**160.945**	**164.164**	**82.681**	**170.796**	**174.212**	**87.741**	**181.250**	**184.875**
90	**Liquiditeiten op het eind van de periode**				**50.000**	**48.301**	**146.333**	**301.028**	**414.347**	**575.292**	**739.455**	**822.136**	**992.932**	**1.167.143**	**1.254.885**	**1.436.135**	**1.621.009**
92	Deze tool wordt door BDO Accountants CVBA gratis aangeboden ('as is'), zonder enige garantie. De gebruiker is verantwoordelijk voor de gecodeerde gegevens en hun interpretatie.																
93																	

For making better decisions, you can also make scenario projections, one based on the worst situation, and one based on the best situation.

HOW TO START WITH CASH FLOW MANAGEMENT?

Very simple. Create a forecast table that shows both the projected income and the projected expenses.

In addition to the so-called 'direct approach', which is more likely to be used for short-term forecasts (between 1 and 6 months), for long-term forecasts you can also obtain a cash flow statement in an indirect way. Such a forecast starts from the variations in the balance sheet and allows insight into important indicators, such as working capital and stock rotations.

Revenues (and expenses) vary greatly from company to company and from sector to sector, but in general you can consider the following cash flows:

INCOMING CASH FLOWS

- Sales - cash sales (e.g., retail) and collection of invoiced sales
- Financing resources obtained - e.g., bank loans, funds obtained on current account with parent company, contributions by shareholders, etc.
- Grants and subsidies
- Other assets - e.g., VAT, ONSS/RSZ or corporate income tax refunds.

OUTGOING CASH FLOWS

- Purchases and supplier debts - direct expenses without an invoice (e.g., restaurant visits, cab, etc.) and payment of invoiced purchases
- Remuneration and social debts - payments of salaries and social security
- Finance charges - repayment of capital component loans or interest payments, payment of dividends, repayment of paid-up capital, etc.
- Taxes - payment of VAT or corporate income tax

To get an accurate view of cash flow, it is important to include transactions in the correct period in which they are expected to occur. A purchase made in May that must be paid for in July should be included in the outgoing cash flows for the month of July.

Subtract the mapped expenses for each period from the revenues for the same period to get a view of the surpluses or deficits in cash for each period.

10 TIPS FOR SUCCESSFUL CASH FLOW MANAGEMENT

1 PAY ATTENTION TO PAYMENT TERMS

Assume the prudence principle: consider that a customer may pay you later, but you must pay your supplier on time.

2 TAKE VAT INTO ACCOUNT

If you have to reclaim VAT, this can take 2 to 3 months. On the other hand, if you collect a lot of VAT you will have to pay it to the tax authorities next month (or quarter).

3 CONSOLIDATE FIXED EXPENSES

Every business has recurring costs. Consolidate these costs into one amount. This amount represents the minimum cash that must come in to survive.

4 UPDATE YOUR FORECASTS REGULARLY

Remain reactive and analyze significant differences with reality.

5 VIEW HISTORIES

Look into previous accounting periods to visualize trends to base your forecast on.

6 ASK YOUR ACCOUNTANT FOR HELP

He/she is familiar with the issues and can provide insightful data.

7 ADJUST FOR GROWTH

More turnover usually means extra spending on marketing, personnel or materials. Thus, sufficient cash is needed to pre-finance growth.

8 ANTICIPATE TAXATION

Take into account prepayments on planned tax profits.

9 HAVE SOME EXTRA SPACE

... for unforeseen issues.

10 MONITOR MARGIN

More turnover does not necessarily mean better cash flow.

MAKE MANAGING YOUR CASH FLOW EASIER

One of the biggest problems in practice is that the reality often differs from the forecasts. Manually updating cash flow monitoring tables can quickly take some time, making it difficult to analyze the differences regularly and thus to remain reactive.

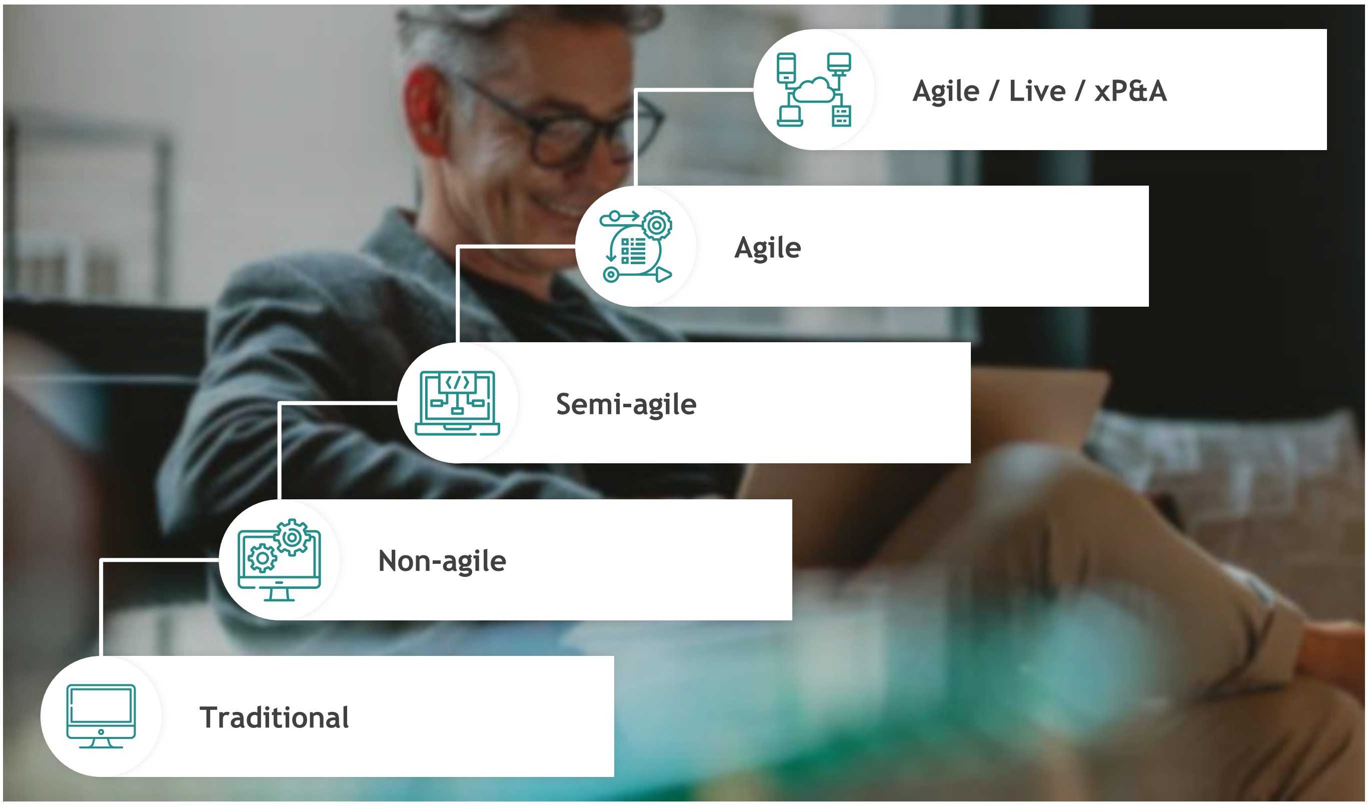
Moreover, it appears that still 60% of SMEs and corporates use Excel for this process, despite its various limitations and the possibility of errors. There are many cases where an error in Excel has significant consequences for the business.

A possible solution is to digitize this labor-intensive process by using a supporting tool, which will automatically collect already available (financial) data in operational & accounting systems and supplement it with additional info.

Oracle EPM (Enterprise Performance Management) and EMAsphere support the business in digitizing cash flow and allow it to avoid a lot of manual work, making it possible to approach cash flow quickly, proactively and without errors. The time saved by implementing the software tool, supported by BDO Digital, can be used, among other things, for preparing various scenarios (worst case, best case, etc.) in the tool and comparing them online.

Once all cash flow data is available, it can be used together with external data (e.g. stock market prices, weather trends, etc.) as input for the AI modules. These make it possible to predict cash flow even more accurately.

This digitization also requires a graduated approach and can be a start of a broader digitization process towards xP&A (Extended Planning & Analysis):



CASH FLOW MANAGEMENT AT HET NATUURHUIS

A testimonial from Raf Van Den Heuvel, Managing Director

Het Natuurhuis is an organic store where you can buy vegetables, fruit, fresh food, dry food, but also supplements, dietary food, etc. The two branches in the Antwerp region offer a total concept for those who are committed to a particular lifestyle.

The fluctuation of purchase prices, the strong increase in online sales and recently also the increase in energy prices make it more important today than ever before for business owners to be able to determine what the impact of these elements is on the company's return and ultimately also on its cash flow.

For our group, BDO made an analysis of the existing processes and built a dashboard based on that analysis that measures the return, cash flow and financing structure. Starting from the consolidated situation of our various legal entities, the dashboard allows us to zoom in to the level of each business unit. The introduction of budgets with clear objectives on cash flow and margin has made it a lot easier for us to steer on purchase prices and operating costs. Considering the various projects we have in progress, the optimal working capital requirement was determined, and we were able to strengthen the group's cash position by optimizing the purchasing and inventory management.

So we can say that this analysis and the development of this reporting helps us to ensure profitable growth.

DRAW THE RIGHT CONCLUSIONS

Accurate cash flow forecasts thus allow you to anticipate the future and make the right financing or investment decisions.

IN CASE OF CASH SURPLUSES

- A temporary cash surplus should not be spent immediately. You may need these surpluses to fund expenses in the near future.
- Continue to monitor margins. Cash surpluses don't necessarily mean (additional) profits.
- See if supplies can be purchased at favorable rates.
- Evaluate your growth plans: additional investment in assets, additional hiring, etc.
- This may be the ideal time to adjust the loan repayment plan.

IN CASE OF CASH SHORTAGES

- Optimise payment terms with respect to suppliers (negotiate extensions) or customers (e.g., through cash payment discounts) to overcome temporary shortages.
- Provide additional financing in case of persistent shortages (loans, shareholder capital, current account, etc.).
- Analyse fixed and variable costs and see what can be spent more efficiently.
- Review opportunities for additional revenue (sale of company assets, rental of unused warehouse space, etc.).
- Review imminent projects, dividend payments or directors' fees.).

Use loans for non-structural cash deficits only to cover operational expenses and not for investments.

BDO SUPPORTS YOU

If you have little to no experience in cash flow management, the biggest challenge will be to gather the right information and prepare forecasts that approach reality.

It is the task of your finance department to keep the collected info structured and present it in an orderly fashion. If your company does not yet have a CFO or accountant, you can always ask for external help to make better financial decisions. The authors of this e-guide can always assist you in this.

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