Cash Flow Statement

"Cash is King" is an old saying and these words are enough to explain the significance of cash. People have different perception about cash in daily life but in business world, cash has its own worth to conduct each and every task of business even for the starting of a business. Cash is the most important financial factor for the survival of business, even though a company could have marvelous revenue, reasonable expenses, and significant income, but if its financial operations are not planned efficiently, the result would be negative cash flow. But for the long-run success of a business, "Positive cash flow" is essential even for dealing the day to day matter. There is no possibility to make positive cash flow without its proper record maintaining and planning the flow of cash.

"Cash flow is the net amount of cash and cash-equivalents moving into and out of a business."

Positive cash flow indicates that a company's liquid assets are increasing, helping out to settle debts, reinvestment, return money to shareholders, pay expenses and set-aside buffer against future challenges. On the other hand, Negative cash flow indicates that a company's liquid assets are decreasing. Net cash flow is distinguished from net income, which includes accounts receivable and other items for which payment has not actually been received.

For managing the flow of cash and to control all the activities related to cash in a business, a document named "Cash Flow Statement" is prepared, for this purpose all the activities of a business are divided into three categories; operating, investing and financing activities. Cash flow statements are also divided into three segments: operating cash flow, investing cash flow and financing cash flow.

- Operating cash flows includes the part of activities related to a company's operations. For examples cash received through the sale of products or services as well as operating expenses paid, such as salary and wages, rent, and transportation. All are day-to-day activities.
- Investing cash flows relate to its investments in businesses and in long-term assets, for examples the purchase or sale of a fixed asset or property, plant, and equipment, and the purchase or sale of a security issued by another entity.
- Financing cash flows relate to a company's investors and creditors, Examples of financing activities include the sale of a company's shares or the repurchase of its shares.

The aim of this statement is to provide information about a company's gross receipts and gross payments for a specified period of time. This statement is intended to provide information on a firm's liquidity, solvency, its ability to change cash flows in future circumstances, provide additional information for evaluating changes in assets, liabilities and equity, improve the comparability of different firms' operating performance and indicate the amount & timing and probability of future cash flows. It has been adopted as a standard financial statement. While the cash flow statement is considered the third most important of the three financial statements, investors find the cash flow statement to be the most transparent, so they rely on it more than the other financial statements at the time of making investment decisions.

Though it is a fundamental document for the business, it is much significant for a businessman to learn the rules to prepare a cash flow statement. He must have proper command over the procedure that how to strengthen the cash flow of a business (given below);

1. Audit and check: For the purpose to improve the cash flow statement, first & foremost step is to understand where the business stands with the current liquidity position. Primarily check the accounts payable and receivable, credit conditions and stock. For this purpose, a businessman must keep an eye on any imbalance between cash outflow and inflow in your business.

2. Invoicing: Receipt and payment system of a business should be streamline. When the invoicing system is accurate and speedy, proper and timely record of all transactions would be maintained.

3. Make it simple for people to pay you: Currently, Banking system is universally preferred for all financial dealings, but include cash, debit and credit card payments. This mechanism makes the process easy and accessible for all. At the same time, make sure each invoice has a due date.

4. Payments must be managed: If you know when you're likely to be paid, it makes it so much easier to manage payroll and accounts payable. Everyone who pays you will have their own patterns, so start learning them and you can anticipate when you might get paid.

5. Offer incentives for earlier payments: An entrepreneur would be amazed how quickly payment happens, when he offers a bit discounts or incentive on the earlier payments, before the due date. In such a way an entrepreneur can predict that how cash flow operates in the business.

6. Create a credit policy: Once businessmen understand their cash flow, they might be in a position to set the credit time limit to their most loyal customers for retaining them. It should be invoicing all such dealings sooner to estimate the inflow of cash in a business.

7. Collections Policy: A businessman should treat all of his customers fairly and he is able to inquire about the overdue invoices. The collection policy should become more formal, the longer payments remain outstanding, and debt collection would be streamline.

8. When do you owe money? A simple rule of thumb is to pay invoices in the day they're due. Rather most of the businessmen think that paying earlier would be better, but this can be risky for an entrepreneur at the time of need. If you have a good relationship and understanding with your suppliers, it might be good to ask them for extending the due dates.

9. Manage the stock: Stock is an important asset of a business and businessman must have grasped on the daily sales and he should know about his best sellers, and plan accordingly.

Cash inflow and outflow can be checked and controlled by following the above mentioned points; those are not so much hectic. The Cash Flow Projection shows how cash is expected to flow in and out of your business, as it is an important tool for cash flow management. By following the above points and to predict the cash inflows and outflows, one can understand when the expenditures are too high or when businessmen have to arrange short term or long term investments to utilize cash flow surplus.

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