



5.2 Cash-Flow Forecasting and Working Capital

What are the components of cash flow?

1. Cash-in-flow
 - a. Cash sale
 - b. Loans/grants
 - c. Share sales
 - d. Dividend
2. Cash-out flow
 - a. Loan repayment
 - b. Wage/Salaries
 - c. Purchase of goods/supplies
 - d. Utilities bills
 - e. Taxes
 - f. Payment of trade credit
 - g. Fixed asset purchase

What are possible cash flow problems?

1. Excess inventory
2. Expansion too quickly
3. Purchasing too much non-current assets
4. Too much loan debt/poor credit control
5. Inflation

How to solve cash flow problems?

1. Delay payments to supplier/increasing trade credit
2. Recover debtor payments early
3. Increase debt
4. Improve credit control

How to improve working capital?

1. Increase current asset
 - a. Improve cash flow
 - b. Cut cost/case outflow
 - c. Dispose assets
 - d. Tighten credit control
2. Reduce current liabilities
 - a. Pay off short-term debts
 - b. Refinance short-term debts
 - c. Reduce purchase of goods on credit

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