



THE ART OF CASH MANAGEMENT

If you increased your sales by 25% to 50% over the next six months, what would happen to your cash balance?

My experience is nine out of ten business owners can't answer this question. That's why so many businesses succeed in growing their business only to end up with an uncomfortable and embarrassing cash flow crisis on their hands.

Knowing what makes up your cash flow is the first step to avoiding a cash crisis. Most business owners believe their cash flow is defined as the revenues they generate less the expenses they have to pay. Not true.

The answer lies in the fact that the accounting rules that govern the creation of financial statements are not about tracking the actual flow of cash through your business. They are focused on measuring profit or loss (P&L). The "bottom line" of the P&L is net income. And net income does not tell you what happened to your cash balance during the period. It merely defines net income based on the accounting rules used to create the income statement.

It's an important measurement, but it is only one component of understanding and managing your cash flow.

Certain cash flow items never show up in an income statement while other items will, but in different periods and in different amounts. So what you will find is that your income statement will not show you what happened to your cash flow. Why? Because your cash flow is made up of more than just profit and loss. It also is affected by:

- * Accounts receivable / Debtors;
- * Inventory / Stocks;
- * Accounts payable / Creditors;
- * Capital expenditures;
- * Borrowings and debt service; and
- * Other "timing" differences

That's why you can't look at your income statement and see what happened to your cash during the month. Profit and loss is only one component of your cash flow. You have to have a clear picture of how each of the other areas affected your cash flow each month in order to understand, and take control of, your cash flow.

The rules of accounting determine when transactions are recorded in your financials and how they are recorded. The reality of business determines when you receive, or let go of, your cash.

On top of having a P&L that governs your accounting life, it's important to keep a schedule that governs your monthly cash flow. Imagine having a schedule in front of you every month that showed you exactly what was going on with your cash flow. A schedule that made it simple and easy to know exactly what was going on with the lifeblood of your business – your CASH.

That's the secret to taking control of your cash flow.

You need an easy-to-understand view of each component of your business that affects your cash flow. Your cash flow schedule needs

to show you what's going on with each of the components of cash flow mentioned above.

Focus on understanding and managing your cash flow each month and you will make it dramatically easier to grow your business without creating a cash flow crisis.

When it comes to properly managing the cash flow of your business, the best way to move from where you are now to where you want to be, is to get a clear picture in your mind of the benefits you will enjoy as you take control of your cash flow.

The benefits include:

- * Increasing the likelihood that your business never runs out of cash;
- * Eliminating the constant worry associated with not knowing what your cash balance is right now or what you expect it to be in the near future;
- * Improved relationships with your vendors because they are no longer banging on your door demanding that their past dues invoices be paid immediately; and
- * The ability to see cash flow problems long before they can happen.

In short, you free yourself to focus your unique talents and abilities on growing your business rather than fighting the constant cash flow fires.

* **Peter Kahi** (pkahi@kpmg.co.ke) is a Director in KPMG Kenya's Restructuring Unit. He may be contacted on tel: +254-20-2806000/207



KPMG Kenya is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. With 94,000 people worldwide, member firms provide audit, tax and advisory services from 717 cities in 148 countries. *The views and opinions are those of the author and do not necessarily represent the views and opinions of KPMG*