

Financial training For non financial staff



The financial training specialists

Where's the money? (cashflow)

I was working with a client on forecasting this week. One participant asked “If the model shows a profit of £32,000, why is the bank overdrawn by £241,000?” A question that concerns many business managers!

So we looked at where the money had gone.

Stocks had grown. Debtors were high, keeping the overdraft high – if our customers have our money, it isn't in our bank account!

The implication of this is that even if we hit budgets, the business can still fail due to cashflow problems.

This set me thinking what kinds of questions need to be asked in management meetings. *Debtor days* tell us how long on average invoices take to pay. The average current debtor days should be compared to the credit terms.

In addition, questions need to be asked about overdue debtors. The *aged debtor analysis* shows how old the overdue debtors are. What is being done to chase the oldest ones? Are we still selling to them (if haven't paid their existing bills, what makes us think they will pay new ones)?

Stock days tell us how many days worth of stock we are holding. If this figure is rising, why do we need to hold more stock than we used to?

But the relevant question is: “What are we going to do about it?”

We need to do things to improve cashflow. Management meetings must highlight who is going to what to turn improve things.

Don't let meetings stop at budgets. Ask about cashflow!