Problems and Countermeasures of Enterprise Cash Flow Management

Wen-feng XIAO
City College of Dongguan University of Technology, Guangdong, China
56392664@qq.com

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Abstract. Cash flow is an indispensable part of economic activities. More and more enterprises are aware of the importance of cash flow in development. To improve their profitability and operating indebtedness, enterprises must pay attention to and solve the key issue—cash flow management. In recent years, the bankruptcy of some large-scale and high-profile enterprises due to imperfect cash flow management system has taught the managers of many companies a lesson, and they started to pay attention to the role and status of cash flow to the sustainable development of enterprises. This paper focuses on some common methods of cash flow management, analyzes the existing problems of enterprise cash flow management, and finally puts forward some suggestions to improve the enterprise cash flow management.

1. Method of Cash Flow Management

In modern time, modern management of cash flow actually refers to the cash management system based on the information resources of cash flow which measures, plans, limits, analyzes and evaluates the current and future cash flow of the company, and at the same time, builds sound and rigorous business activities, fund-raising activities and even investment activities. The company’s operating conditions may fluctuate or change in a period of time, which appears to be unstable. However, the management of cash flow is closely related with other business activities, resulting in the fluctuation of inflow and outflow of cash. In order to improve the unstable situation of cash flow, company should work out overall and reasonable scientific system closely related to cash flow to assist company to take use of allocation that in line with the actual allocation. Common methods in enterprise cash flow management practice:

1.1 Reasonable allocation of asset structure

The asset structure of an enterprise can reflect its power of growth, and the proportion of assets in all kinds of assets and wealth will impact the business ability, solvency, and profitability. In addition to financing short-term liabilities to provide liquidity funds for the company, long-term debts may also provide funds for fixed assets and long-term investment. In this way, assets may be matched with liabilities of different times and quantities to form perfect assets structure, reduce financial risks, maintain normal operation and obtain profits continuously.

1.2 Cash flow budget and basic management

If a company is to increase the use rate of cash flow, and accelerate their cash flow rate, the method of forecasts of cash flow using scope may be applied, or standardize the production management of the company. The forecast of cash flow prediction refers to the comprehensive analysis of company situation and sales of products, so as to develop a reasonable forecast scope. Cash flow forecasting means that in the specific range and period, the future of cash flow may be inferred from the development strategy, future capital expenditures and returns of the company. First of all, the time of fund withdrawal must be arranged to meet the demand of cash. Secondly, there must be a certain amount of balance in cash, so that voluntary expenses may be made at the right time.

Normative basic management has the similar characteristics as the pipeline. If a company plans to implement overall regulation on its business activities and projects, every step must be subject to
scientific, appropriate, and scientific standards. The accounting department of a company is a production machine which submits cash flow statements in accordance with production standards, creates a ledger on liquidity, and helps managers to learn more precisely about the information of sales, inventory, receivable accounts and cash flow change, etc., to know well about the operation of funds, make objective and rational analysis of operation, and produce standard finished products. In addition, to a certain extent, company should also account for the share of cash in a scientific and standardized manner, control, use or even recover the fund-raising related to cash flow strictly, so as to exercise a scientific and reasonable control over cash flow, and effectively reduce the operating costs of funds [1].

1.3 Daily management of cash flow

In daily management, the verification on inventory cash carried out by company is an important step that should not be overlooked. White support base and use of revenue cash to meet expense should be avoided as possible, and the bank deposit book balance and the amount of cash in bank deposits should be consistent, therefore to ensure the security of funds of enterprises. Firstly, enterprises must ensure that cash flow can return to the enterprises quickly and safely, so that the funds may be allocated reasonably and effectively. This requires company to conduct strict management on the cash flow in daily operation, including shortening the period of receivables, delaying the payment of payables, and enhancing the approval of customer credit system, etc., at the same time, prediction and analysis on inflow and outflow of cash should be conducted, and the funds needed by the enterprises in the future for raw material procurement, plant expansion, fixed assets procurement, and debt repayment should be prepared. After the funds are prepared, they should play an active role rather than be idled. Managers shall analyze the external investment environment in a rational way, and invest the funds to where necessary. Finally, managers should have a good knowledge of the cash flow balance, and regard it as the basis for the establishment of monitoring system within which the company’s cash flow circulates, which enhances the regulation.

2. Analysis of Problems Existing in Enterprise Cash Flow Management

2.1 Weak awareness of cash flow management

Many business managers do not attach much importance to the liquidity and safety of cash flow, nor are they aware of strategic management of cash flow. They pay too much attention to profits and sales, pursue the maximization of profits without perfecting cash flow management system, and invest and expand the company blindly, which will result in inflexible cash flow, or even result in insolvency, capital chain crack and bankruptcy liquidation. Although many companies have carried out cash flow forecasting and compilation, they do not formulate scientific management methods and measures, nor do they conduct a comprehensive analysis on the cash flow. Problems that occurred in the course of operation were also not solved in time. Most staff members of a company believe that finance department should be responsible for cash flow management, and other departments only do their own work and comply with the plans of sales and purchase. The lack of communication with the finance department, failure of unified control cash flow, and responsibility-shifting between departments in case of emergence of problems lead to the failure of implementation of cash flow management regulations [2]. Company also fails to prepare reasonable cash flow budget table in project investing, but carries out cash flow estimates at random, which leads to increasing investment pressure.

2.2 Lack of effective control to financing

Fund-raising is the activity carried out by a company based on the macro-and micro-environment analysis, joint development strategies and investment activities in order to conduct systematic planning of the fund-raising of the company, so as to lay the foundation for the company. It is of great importance of fund-raising activities for an enterprise. The cost of fund-raising has direct influence on production and operation cost of the enterprise. Therefore, it is necessary to formulate
corporate strategies for fund-raising activities so as to meet the needs of development of the enterprise. Many enterprises, especially small and medium-sized enterprises, only have a single means of financing, which is mainly on debt financing such as bank borrowings. Though external financing have the advantages of financial leverage and low cost of capital, the interest on debt financing and the unreasonable arrangements of maturity time distribution often bring greater financial risks [3]. At the same time, the current assets of enterprises are mostly in the form of accounts receivable and prepayments. It is difficult to turn them into debt repayment in a short period of time. If the company has to face with unforeseen risks in the business operation, capital chain crack may appear.

2.3 Weak internal control of cash flow

A problem that commonly exists in enterprise cash flow management is the undeveloped internal control of cash flow. As a company lacks an effective cash flow management system, it is idle funds or lack of funds, while some enterprises prefer more cash and ignore idle funds. On the contrary, some enterprises overuse cash with high proportion of long-term assets, leading to insufficient overall liquidity of assets. Secondly, the current assets monitoring mechanism is undeveloped, accounts receivable recovery period control is not enough, the inventory quantity is not strictly controlled, and no in-depth investigation is conducted in the procurement and production stage. The blind purchase and production finally lead to inventory backlog and capital occupation. At the same time, the exchange of information within the company is asymmetric, and there is no coordination among departments on management of the operation of the company’s capital.

3. Advices on Improving Enterprise Cash Flow Management

3.1 Transform idea, and enhance awareness of cash flow management

To raise enterprises’ attention to cash flow management, they must transform concept first. The importance attached by supervisors to cash flow is the most critical, which requires managers to take the initiative to raise awareness of cash flow management and solutions, and establish cash flow management regulations actively and implement strictly. On the other hand, it is necessary to improve the cooperative ability of all departments, all employees and financial staff, create a good environment for financial work and improve the efficiency of corporate cash flow. Although profit is important to the company, the cash flow shall not be ignored. Paying attention to cash flow, enterprises should work out reasonable cash flow management and solution to realize the refinement of cash flow management. Only by preventing tiny errors in the process of financial management, looking into details, and covering the full business range of the company can the refinement of cash flow management be achieved. The potential value of the enterprise’s cash flow management should be explored, and the financial supervision function and management and service function should be combined to contribute to the safe and healthy development of company, and maximize the value and economic benefits of the enterprise.

3.2 Work out reasonable cash flow using plan

The long-term prosperity and sustainable develop of company rely on the contribution of sales revenue. Only by ensuring positive cash inflows and normal inventory of cash reserves can a company performs well in business operation, investment activities, and fund-raising activities. It is an icing on the cake for enterprises to expand scale modestly, but over-expansion can lead to unexpected destruction. First of all, a company must plan cash flow, formulate its own usage amount, make reasonable use of funds, reclaim funds that are difficult to recover, and make reasonable use of idle funds when capital meeting daily business activities is sufficient is available. Enterprises should adhere to the basic principle of balanced cash use, and try to achieve a good condition with both outflow and inflow. Cash sales and credit sales should be distinguished; credit rating should be made to customers on credit; and accurately prediction of recovery period of funds and the procurement period of raw materials should be made; the economic loss in the production
process should be controlled within the expected scope [4]. Secondly, strengthen the management of the steps in cash flow process. Each change must be submitted for authorization, record, verification, inspection and supervision of relevant departments. Reasonable planning of corporate funds should be made so as to avoid unintended cash flowing-out. Finally, enterprises should carry out daily settlement of cash on inventory, and verify amounts on time. It is better to set up a specialized department to handle cash risk which can put forward effective cash flow estimate to help companies to avoid risks of cash flow, ensure the security of cash flow, strengthen the management of accounts receivable and inventory, recover funds in time and reduce occupancy rates, and make a considerable recovery rate for the investment made.

3.3 Formulate scientific enterprise financing strategy

Enterprises should select several banks according to their situation as the main financing objective to ensure the financial links in the long-term stable development of the company. To win the support of banks, enterprises must leave a good impression. They should be trustworthy, return principal and interest timely, and establish a long-term cooperation relationship with banks and ensure fluent financing channels. In addition to the support of bank, company must actively adopt other methods for financing. Other than investment from shareholder, the company can also collect funds through bonds issuance and private fund-raising. The managers of the company need to make prediction in financial decision-making, have good understanding of China’s policies and situations, be aware of dynamics in financial markets and changes in interest rates both at home and abroad, and seek for appropriate financing opportunities accordingly. Only by doing this can the funds of company be sufficient. After working out a financial plan, a company should insist on the method of sustainable development, be cautious and careful about investment, avoid blind investment in unfamiliar areas, rationalize the use amount and the scope of funds, diverse the investments and businesses, develop new products while ensure the quality of existing products, and expand business scope of other fields with full analysis and investigation. In this way, not only the disposable cash flow of the enterprise is regulated, but also the recovery rate of investment is increased.

References


