

# Cash Flow Cycle Analysis

**More Art than Science**

# M<sup>2</sup>O



MEANS  
MOTIVE  
&  
OPPORTUNITY  
TO PAY

# MEANS TO PAY IN FUTURE?

No audited financial statements?  
Use the magical **Cash Flow Cycle**  
(Chapter 2.5)

Otherwise, use  
**Forensic  
Cash Flow Analysis™**



# Cash Flow Cycle Analysis



**No Need for a  
Magic Potion**

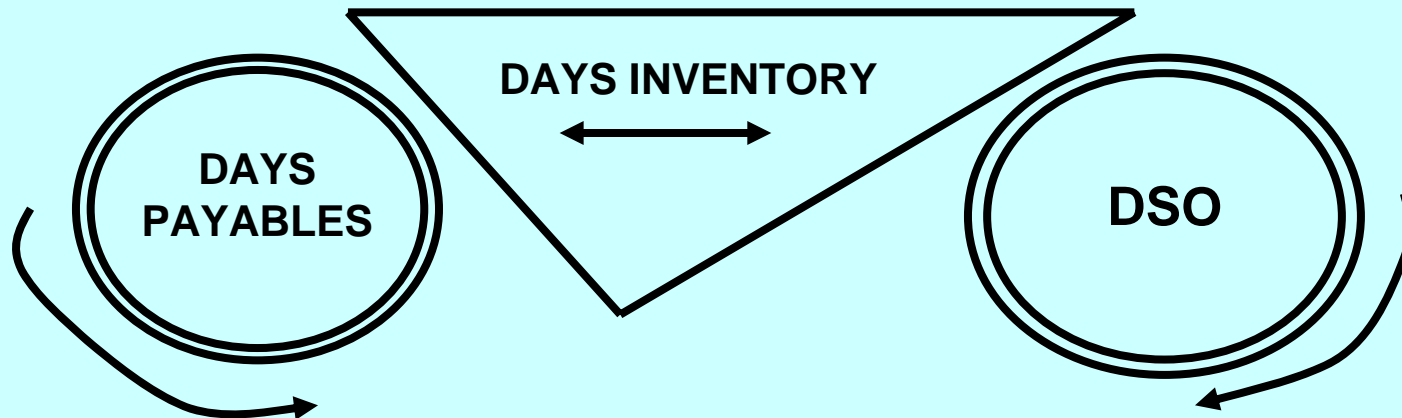
**No Need to be a  
Magician**

The magical Cash Flow Cycle is described as magical because of the way it magically causes cash to disappear.



Left uncontrolled it will suck in cash and lock it beyond reach; particularly in times of rising prices or increasing sales volumes.

The '**cash flow cycle**' is the time required to convert goods into cash; from the date the company pays the costs of acquisition of the goods to the date of receipt of the cash from related sales.



# The Formula

Cash Flow Cycle

=

(Days Inventory + Days Sales Outstanding) – Days Payables

**Days Inventory = Inventory / (Cost of Sales / 365)**

**Days Sales Outstanding = Trade Receivables / (Sales / 365)**

**Days Payables = Trade Accounts Payable / (Cost of Sales / 365)**

# An Example - Corus

Over the period 2002 through 2004, Corus Group Plc evidenced a cash flow cycle of between 64 and 66 days.

Hence in 2004 as its sales grew by £1.38 billion, the extra cash that became locked up in its Cash Flow Cycle grew by £250 million.

This represented some 18% of the sales growth. In other words, for every £5 of additional sales Corus locked away almost £1 in additional working capital.





Growth in sales is extremely cash hungry in every business; unless the components of the Cash Flow Cycle are carefully controlled.



# Corus 2005

<b>COST OF SALES / DAY</b>	£24mio
<b>PAYABLE DAYS</b>	78
<b>INVENTORY DAYS</b>	82
<b>RECEIVABLE DAYS [ DSO ]</b>	54
<b>CASH CYCLE DAYS</b>	??
<b>WORKING CAPITAL £ MIO</b>	??





# Corus 2005

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<b>RECEIVABLE DAYS [ DSO ]</b>	54
<b>CASH CYCLE DAYS</b>	<b>58</b>
<b>WORKING CAPITAL £ MIO</b>	1,392



# Some 'What If?' Illustrations

<b>COST OF SALES / DAY</b>	<b>PAYABLE DAYS</b>	<b>INVENTORY DAYS</b>	<b>RECEIVABLE DAYS [ DSO ]</b>	<b>CASH CYCLE DAYS</b>	<b>WORKING CAPITAL £ MIO</b>
£24mio	78	82	54	<b>58</b>	1,392
	78	<b>70</b>	54	<b>46</b>	1,104 (288)
	78	82	<b>40</b>	<b>44</b>	1,056 (336)
	<b>90</b>	82	54	<b>46</b>	1,104 (288)
	<b>90</b>	<b>70</b>	<b>40</b>	<b>20</b>	480 (912)

# M<sup>2</sup>O



MEANS  
MOTIVE  
&  
OPPORTUNITY  
TO PAY

# Credit is an Option to Default



TWO CHOICES

# CAN PAY?

# Means to Pay



# WILL PAY?

# Motive to Pay

What 'drivers' motivate someone to pay after the goods have been received?

← DON'T PAY

→ PAY



# Opportunity to Pay

What has to be 'right' in order to allow or enable someone to pay?



# 唤醒平衡表上的睡狮 国际信用管理实用指南

BarrettWells™

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