Cash Flow Cycle Analysis

More Art than Science
M²O

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

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<tr>
<td><strong>COST OF SALES / DAY</strong></td>
<td>£24mio</td>
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<tr>
<td><strong>PAYABLE DAYS</strong></td>
<td>78</td>
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<tr>
<td><strong>INVENTORY DAYS</strong></td>
<td>82</td>
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<tr>
<td><strong>RECEIVABLE DAYS [DSO]</strong></td>
<td>54</td>
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<td><strong>CASH CYCLE DAYS</strong></td>
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<td><strong>WORKING CAPITAL £MIO</strong></td>
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## Corus 2005

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<td>1,392</td>
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## Some ‘What If?’ Illustrations

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M²O 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》


Awaken the Sleeping Lion on the Balance Sheet
an Executive Summary for Global Credit Management

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