

## 3a. Cash: The fundamentals

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### The topics covered in this section include:

- Cash: An introduction, what is cash and why is it important?
- Cash: Consumers and Generators
- The Working Capital Cycle: Cash positive or negative?

### 3a. Cash Fundamentals: An introduction, what is cash and why is it important?

**Cash** is all the money a company collects from selling its products and services minus all the costs to run the business, like purchasing products, paying the workforce, interest on loans etc...

**Cash is real...** It is not like profit that can be affected by a range of non cash transactions like depreciation or provision releases.

**No cash = No Business...** Many businesses that have high profits, can run out of cash and falter due to poor cash management techniques.

**More cash** means a company can:

- Pay off any interest on loans or even pay off the loan quicker
- Pay higher bonuses to staff or distribute more cash back to shareholders
- Invest in a range of activities to grow the business further

**It is about a total value approach...** The strongest businesses consider all 3 key metrics:

$$\text{Sales} + \text{Margin} + \text{Cash} = \text{Total Value}$$

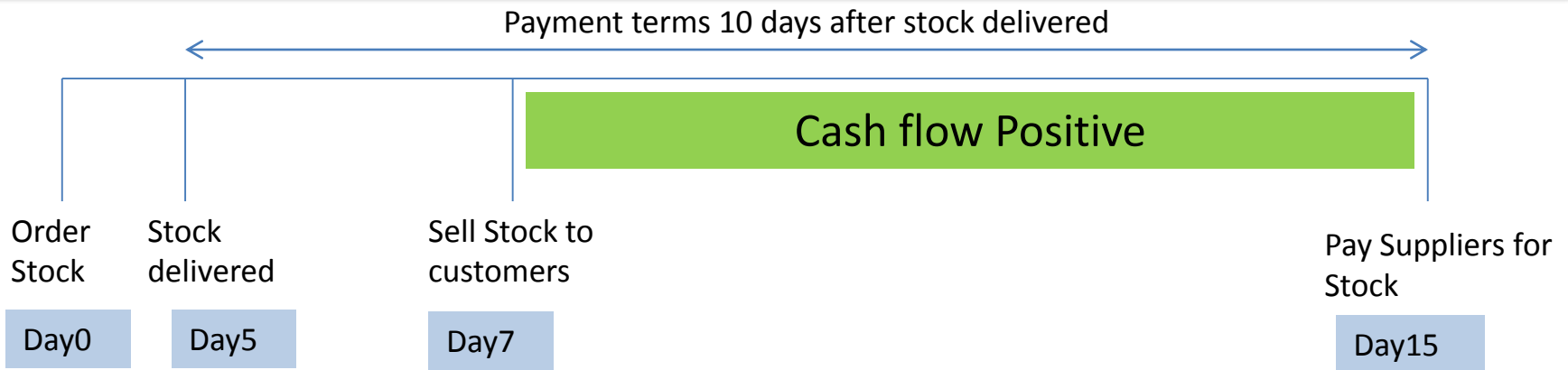
#### What consumes cash?

- Salaries
- Property costs – rent, rates
- Amount of stock purchased
- Amount of time stock is held for
- Stock loss (theft, out of date, lost)
- Interest payments on debt
- Dividend payments to shareholders
- Warehousing & distribution costs
- Capital expenditure
- IT costs
- Marketing costs

#### What generates cash?

- Payments received from customers purchasing goods/services
- Margin made on goods/services sold
- Length of time holding stock
  - >(turning stock over more (selling it more often) increases cash flows
- Length of time taken to pay Suppliers
  - >(increasing time taken to pay, increases cash)
- Length of time Suppliers take to pay
  - >(getting suppliers to pay on time or earlier, increases cash)
- Investors putting capital into the business
- Funding from Suppliers
- Making lower purchases
- Higher discounts for purchases

**Cash Positive >>> get cash from selling goods before goods are paid for**



**Cash Negative >>> pay for goods before they are sold**

