THE IMPACT OF CASH FLOW ON THE EFFECTIVENESS OF FINANCIAL MEANS

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Abstract. Cash flow is a set of distributed time receipts and disbursements of funds generated by the economic activities of the organization. Cash flow optimization is a key factor in ensuring the financial viability and sustainability of a company. Efficiently organized cash flows are a sign of the financial health of the enterprise. The need to optimize cash flows arises primarily from the movement of material flows of funds in the required quantities, at the right time with the use of the most efficient sources of funding. This article discusses the direction and methods of optimization of cash flows, is determined by the need to optimize the cash flow in order to ensure the financial sustainability of the organization.

Keywords: cash flow, net cash flow, optimization, balance, synchronization, alignment, maximization.

Recently in the scientific analysis of economics, financial management and business management, there has been a lot of focus on the question of cash flow. Methodological questions in the problem of management and optimization of cash flows, working capital turnover in particular, are highlighted in the works of many foreign economists: J.A. Bernstein, J.C. Van Horne, S. Karlin, J. Keynes, B.Kolass, J. Meissen, D. Orr, K. Arrow and others. J.C. Van Horne highlights the overall cash flow, indicating a surplus of funds which occurs in the enterprise as a result of all transactions related and non-related to economic activities. Total cash flow consists of cash flow from business activities and cash flow from non-economic operations. The amount of money varies depending on the volume of sales, collection of receivables, capital expenditure and financing.

The Russian, economists such as: I.T. Balabanov, V.V. Bocharov, N.V. Nikitin, G.B. Polyak, M.V. Romanovsky, E.S. Stoyanova, A.D. Sheremet, contributed to the problem of cash-flow. (1996, 2006)

In the Uzbek economics sphere, economists such as: A.V. Vakhobov, T.S. Malikov, N.H. Khaydarov, A.T. Ibragimov, K.S. Shogiyasov, M.Sh. Sharifhodzhaev, Z.H. Sirozhiddinova, N.F. Ishonkulov have made great contribution to the development of this issue. Uzbek scientists, economists believe that cash flow – is the directed flow of the money of the enterprise for a certain period of time, both in cash and non-cash forms. It is usually generated as a result of current, investment and financial activity. It is necessary to distinguish the concept of cash flow and net cash flow, defined as the difference between the cash inflow and their disposal (cash outflow). As a result of this, non-cash payments, which make up 90% of the total money turnover, fall out of this category. Cash flow is defined as the difference between all receivable and payable in cash for a certain period of time: it is made up from profit. Profit serves as an indicator of business performance and the source of its usefulness. The growth of profit creates a financial basis for self-financing of the company, for expanded production and meeting the social and material needs of the firm. With the profits they are able to fulfill the obligations to the state budget, banks and other organizations. A company's activity is closely connected with the movement of funds. The financial condition of the company depends on the managers’ ability to manage cash flow. (2008, 2011, 2013)

Cash flow is a set of distributed time receipts and disbursements of funds generated by the economic activities of the organization. Cash flow optimization is a key factor in ensuring the financial viability and sustainability of a company. Efficiently organized cash flows are a sign of the financial health of the enterprise. The need to optimize cash flows arises primarily from the movement of material flows of funds in the required quantities, at the right time with the use of the most efficient sources of funding. On how the inflows and outflows de-moneys are synchronized with each other in time and volume, are widely determined by the rate of economic growth and financial stability of the organization. A high level of synchronization and optimizes the efficiency of financial management, a significant acceleration of the implementation of the
strategic goals of the enterprise. The process of selecting the best forms of organization of cash flows in the company subject to the conditions and characteristics of the performance of its business activities is the optimization of cash flows. Effectively organized cash flows are important symptoms of financial states, a prerequisite for achieving high performance of a business entity, contribute to the rhythm of economic and investment activity. Optimization of cash flows is one of the primary functions of cash management, aimed at increasing their efficiency in the coming period. In the process of optimizing cash flow solves the following main tasks:

– Identification and implementation of provisions that allow the organization to reduce its dependence on external sources of raising funds;
– Ensuring a better balance between positive and negative cash flows in volume and in time;
– Providing closer links cash flows from operating, financing and investing activities of the organization;
– Increase the amount and quality of net cash flow organization, its business activities generated.

Based on the above, the following main directions of optimization of cash flow: 1) Balancing cash flows in terms of; 2) Balancing of cash flows over time; 3) Maximization of net cash flow.

1. The first step is to balance the volume of the positive and negative cash flows, since the deficit and surplus cash resources adversely affects the results of operations. For example, when scarce cash flow reduced liquidity and the level of solvency of the enterprise, which leads to an increase in arrears on loans to banks enterprises, suppliers, staff payroll (with a corresponding reduction in the level of labor productivity), an increase in the duration of the financial cycle. All of this eventually leads to a decrease in return on assets and equity of the organization.

When excess cash flow is a loss of real value of temporarily idle funds as a result of inflation, capital turnover slows down due to idle funds lost part of the potential revenue from the unused portion of funds in connection with the loss of profits in the short-term of their investment.

Methods of balancing cash flows of the volume can be divided into two groups:
1) Methods for optimizing scarce cash flow;
2) Methods of optimization of excess cash flow.

Optimization methods of deficit cash flow aimed at ensuring growth in a positive and a reduction of the negative cash flow. In addition, methods of optimization of scarce cash flow depend on the nature of the deficit – short or long.

Balance deficit cash flow in the short term is achieved by using "System acceleration - deceleration payment transactions" (or "End Systems Leeds legs"), the essence of which is to develop the enterprise organizational measures to accelerate raising funds and slow their payments.

• Events to accelerate raising funds:
  Providing partial or full payment for goods which are in high demand in the market
  Reduction of terms of trade credit to customers
  Increasing the size of price discounts for the sale of goods for cash
  Accelerating the collection of overdue accounts receivable
  The use of modern forms of reinvestment accounts receivable (discounting, factoring, forfeiting)

• Events to slow disbursement of cash:
  Increase in coordination with the suppliers’ terms of organizing trade credit
  Using the float (the period of prescription of payment documents to their payment) to slow their own collection of payment documents
  Accelerating the collection of overdue accounts receivable
  Purchase of non-current assets on lease
  Restructuring of loans obtained by converting short-term into long-term

Since these activities, increasing the level of absolute solvency of the enterprise in the short term can create problems of scarcity of cash flows in the future, to be developed in parallel measures to balance the cash flow deficit in the long run.

Optimization Methods of excess cash flow mainly related to investment activity of the organization and include the following activities:
– Increase in the expanded reproduction of operating fixed assets;
– Accelerated development period of real investment projects and to their implementation;
– Implementation of regional diversification of operations of the organization;
– Active formation of a portfolio of financial investments;
– Early repayment of long-term financial loans.

2. The system cash flow optimization company an important place belongs to their balance over time, as the imbalance of positive and negative cash flows in time for the organization creates a number of financial problems. The result of this imbalance, even with a high level of formation of net cash flow is low liquidity of the flow (and hence the low level of absolute solvency of the enterprise) in certain periods of time. At sufficiently high duration of periods for the enterprise there is a serious threat of bankruptcy.

In the process of optimizing cash flows of the company during the time they are pre-classified according to the following criteria:

1) In terms of "neutralized" (the ability to cash flow a certain type of change over time), cash flows are classified into incompressible change;
2) In terms of predictability of cash flows are divided into completely predictable and lacks predictability (absolutely unpredictable cash flows in the system optimization are not considered).

The objects of the optimization are the predictable cash flows that may be changed over time.

In the process of optimizing cash flow over time are two main methods - the alignment and synchronization.

Alignment of cash flows – smoothing volume of cash flows in the context of individual intervals the period under consideration. This optimization method allows eliminating a certain extent, the seasonal and cyclical variations in the formation of cash flows (both positive and negative), optimizing parallel average cash balances and increasing the level of absolute liquidity.

The results of this optimization method cash flow in time estimated by means of the standard (RMS) deviation and coefficient of variation, which optimization process should be reduced.

RMS (standard) deviation is one of the most common indicators in the assessment of uniformity of cash flow, which determines the degree of oscillation of it. It is calculated by this formula:

$$\sigma = \sqrt{\frac{1}{n-1} \sum_{i=1}^{n} (R_t - \overline{R})^2 \cdot P_t},$$

Where $\sigma$ – RMS (standard) deviation of cash flow in the reporting period;
$R_t$ – the value of the cash flows in a particular interval of the period in question;
$\overline{R}$ – the average value of cash flow over the intervals considered time period;
$P_t$ – the proportion of the interval $t$ in the considered period (incidence of rejection);

$n$ – the number of intervals in the period under review.

The coefficient of variation to determine the level of oscillation of different volumes of cash flows over time, if the average performance of their volume differs. Calculation of the coefficient of variation of cash flow is carried out according to the formula:

$$CVV = \frac{\sigma}{\overline{R}},$$

where $CV$ – coefficient of variation of cash flow;
$\sigma$ – RMS (standard) deviation of cash flow;
$\overline{R}$ – the average value of cash flow over the intervals considered the total period.

Synchronization of cash flows – this adjustment of inflows and outflows in order to maintain an optimal balance of funds. The need for synchronization arises from the fact that under conditions of high non-uniformity in the formation of different types of cash flows in the context of individual time slots in the company formed a significant amount of temporarily idle funds or their temporary deficit.

Temporarily idle cash balances, prior to their use in the economic process lose their value over time by inflation and for other reasons. Such temporarily idle cash balances in a timely manner is not transformed into their equivalents are treated as reserve to improve the organization of cash flows in the period ahead.
At the same time a temporary shortage of funds associated with the formation of non-synchronous cash flow, generates the risk of insolvency and bankruptcy is a threat even if profitability of the organization, and also requires taking into account in the organization of the cash flows in the period.

During the synchronization process must be ensured improving correlation between positive and negative types of cash flows. The results of this optimization method cash flow in time are estimated using the correlation coefficient, which process should strive to optimize the value "1". The correlation coefficients of positive and negative cash flows over time determine the level of synchronicity formation of these types of cash flows in the period under review.

Synchronization of cash flows should be directed towards the elimination of seasonal and cyclical variations in the formation of both positive and negative cash flows, as well as the optimization of the average cash balances.

3. The final step is to ensure the optimization of the conditions to maximize the net cash flow of the enterprise, the growth of which enhances the level of self-financing enterprise and reduces the dependence on external sources of funding.

To ensure growth in the amount of net cash flow advisable to carry out the following activities:

– To carry out a systematic search for reserves to reduce the cost of goods (works, services), increasing its competitiveness in order to increase profits;
– Implement an effective pricing policy, providing high level of profitability of the operating activities of the organization;
– To improve the accounting and amortization policies aimed at reducing the tax burden;
– Strengthen the work with claims on the timely and full recovery of penalties and receivables;
– To find the feasibility of unused fixed assets, intangible assets and inventories. Thus, the ultimate goal of optimizing cash flows of the company is to maximize the net cash flow of the organization, which increases the level of self-financing and reduce dependence on external sources of financing, which in turn increases the stability of the financial position of the organization.

References

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