Balance Sheet and Cash Flow Checklist

For many organizations, forecasting the Balance Sheet is an afterthought. But relying on traditional methods like cash ‘plugging’, and using tools like spreadsheets has made this integral part of financial corporate management problematic because one of the consequences of this approach is not truly understanding your cash position. Today’s finance leaders are now turning to more modern and effective approaches to address the limitations of these traditional methods. According to a recent study, nearly 73% of organizations see the integration of a corporate performance management (CPM) solution with their General Ledger as a more effective way to forecast and, in turn, gain greater visibility into the financial health of their business.

But why is cash management so important? Because nearly every scenario in the office of finance can be impacted when you don’t have visibility into your cash position.

| “We are a rapidly growing company and we need to manage our expenses carefully.” |
| It is easy to be optimistic during a company’s growth period. The anticipated revenues from increased sales should no doubt cover your expenses. Or will they? What if the costs of your expansion grow faster than your sales? Have you effectively planned to have enough cash on hand to keep the business stable during this period of growth? |

| “Our business is seasonal and our cash holdings fluctuate as a result.” |
| Anticipating your cash shortfalls is paramount for businesses that run on a seasonal basis. You never want to be in a position where you can’t pay your bills. The key to managing shortfalls is to become aware of the problem as early and as accurately as possible. You need detailed knowledge of amounts and dates of upcoming cash outlays. Are you able to prepare accurate projections of your cash flow at any given point? Or do you merely guesstimate and hope for the best? |

| “The business is doing fine; in fact, we made record profits last year.” |
| Firms that don’t exercise good cash management may not be able to make the investments needed to compete, or they may have to pay more to borrow money. It’s important to realize that profit does not equal cash flow. You can’t just look at your P&L statement and understand your cash position. You need visibility into a number of other data points, including accounts receivable, inventory, accounts payable, capital expenditures, and debt service. Smart cash-flow management requires a laser focus on each of these drivers of cash, in addition to your profit or loss. But managing these tasks manually is time-consuming and leaves room for error. If there was an easier way to gain visibility into your cash flow – would you do it more often? In good times and in bad? |

| “We’re aware of our current cash position. In fact, we’re about to negotiate a new set of covenants with the bank.” |
| One of the most critical aspects of effectively managing any loan relationship relates to constant monitoring of current covenant results through interim financial statements. In addition, all financial projections and prospective budgets should include analysis on how loan covenants will be impacted. For this, you need a proactive approach in order to gain a clear understanding of how certain events will affect the covenant. Are you able to create these scenarios on an as-needed basis? Similarly, are you able to provide your bank with a detailed and accurate report of your company’s historical cash position along with a plan to manage the covenants over the long term? This is powerful information that will put you in a position of strength when it comes to dealing with the bank on all financial dealings. |

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