

## CONCEPTUAL FRAMEWORK OF PLANNING AND CONTROL OF CASH FLOWS OF THE COMPANY UNDER ANTI-CRISIS FINANCIAL MANAGEMENT

### KONCEPCIA PLÁNOVANIA A RIADENIA PEŇAŽNÝCH TOKOV V SPOLOČNOSTI - PROTIKRÍZOVÝ FINANČNÝ MANAŽMENT

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#### ABSTRACT:

*The article deals with the conceptual basis of planning and control of the cash flows of the company under anti-crisis financial management. The article has been presented in two parts. The first part describes the main components of the planning system of cash flows of the company. Systems and methods for monitoring cash flows of the company have been investigated in the second part of the article. The mechanism of planning and control of cash flows as part of financial management of the company in the terms of crisis has been suggested in the conclusions of the article.*

**KEYWORDS:** cash flows, cash, net movement of cash, anti-crisis financial management, income and expenditure of cash, cash balance, operating, financial and investment activity

#### INTRODUCTION

Research on management of cash flows of the company is extremely important both in theoretical and practical aspects. In the terms of crisis of internal and external environment of the company and the emergence of innovative methods and tools of the system of company's financial management the mechanisms of planning and control of cash flows for its adaptation to current crisis economic realities and needs of the company practices has to be improved now.

#### 1. MAIN COMPONENTS OF THE SYSTEM OF THE COMPANY'S CASH FLOW PLANNING.

Planning and control of cash flows form the basis of the whole mechanism of management of cash flows of the company. The first important thing is planning of cash flows of the company, which can be seen as the process of developing plans for cash flows of different types of activities using specific tools and instruments. However, systems and methods

of their internal control play a serious role as a part of cash flows management mechanisms. Internal control of cash flows is a process organized by a company to inspect the completion of all management decisions to implement the policy of their development and the planned indicators of current and operational plans. Thus, the formation of mechanism of planning and control of cash flows of the company is an integral part of building the entire anti-crisis company management system to ensure its effectiveness.

On the one hand cash flow planning is the process of development of the system of plans and planned indicators for the formation of different kinds of flows in operating, investing and financing activities of the company in the next period [1]. On the other hand cash flow planning is a set of measures and tools for forecasting and managing the cash turnover, which consists of two parts: the expected revenues and expected cash payments. The main purpose of the cash flow planning according to Labazova E.V. is to optimize the

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cash flows, to determine the sufficiency of funds, to identify the causes of the deficit or surplus [2].

Cash flow planning includes forming a system of planning financial indicators, on the basis of which plans of the cash flows are developed and deviation from the planned parameters are monitored (measured, detected and corrected). It is reasonable to form the appropriate parameters taking into account the nature and specificity of cash flows. Cash flows planning is realized within the overall system of perspective and current financial planning of the company based on strategic goals and mission of the company within which the system of the concretized plans (budgets) providing for the processes of approval, adjustment and control of implementation is developed. In the process of cash flows planning it is important to justify the targets for selecting the type of policy of planning and control of cash flows of the company in terms of the threat of financial crisis.

According to Borovkova, P. there are three main reasons for cash flow planning:

- a safe scenario,
- financial policy justification,
- maximizing financial indicators [3].

«A safe scenario» - this objective implies that budgets are formed only in order to the company has not become bankrupt. This approach is relevant for companies whose financial position may be threatened next year.

If management shares this approach, the main approaches to cash flows planning are as follows: the most accurate planning of revenues and earnings: not the forecast of earnings in general, but adding to the budgets only those planned indicators that are supported by contracts, obtained guarantees of repayment of accounts receivables, warranties, etc. Strict rationing: each planned expenditure of cash is connected with the amount of expected revenue.

«Financial policy justification» - if this is a goal of the system of cash flows planning, it means that the company plans serve as a tool to justify tariffs, amounts of demanded investments and budget subsidies. This is typical for subsidiaries of large holdings and corporations as well as for companies whose activities are more or less regulated by the state (such as energy).

«Maximizing financial indicators» is the classical target of budgeting in successful

commercial companies. Essentially it means that budgets are used as a plan of action that allows maximizing revenue, profit, efficiency or any other financial indicators in the growth of which management and business owners are interested.

It is advisable to allocate 3 levels in the system of planning of cash flows of companies in terms of the threat of financial crisis: strategic (long-term) planning; current (tactical) planning; operational planning (Fig.1).

The system of strategic planning of cash flows, designed to develop and forecast the major target parameters of cash flows development, is among the most complex planning systems. This prediction of target parameters of cash flows happens in the process of developing the overall anti-crisis financial strategy of the company.

The horizon of forecasting of cash flows of the company reaches generally 3-5 years. Such target parameters can be the following: the minimum profitability of operating activity of the company, the maximum level of flow of production capacity, the minimum of absolute and current solvency, capital structure [1].

Tactical cash flows planning should provide balance and synchronization of negative and positive cash flows during the year due to which the goal of this type of planning, that is to ensure current solvency, is realized. It is reasonable to form the annual budget of the company using the analytical and rated method of planning. During cash flows planning plan-fact analysis of the past period is held and data on cash earnings, seasonality of demand and the forecasted amount of sales is analysed.

The budget is a financial plan for a short period, usually developed within one year that reflects expenditure and cash earnings in the implementation of specific types of business. It details the indicators of the current financial plans and is the main planned document that is sent to the «responsibility centers» of all types.

Development of planned budgets in the company is characterized by the term "budgeting" and aims to solve two main tasks: determining the amount and costs of funds related to the activities of individual business units and departments of the company; provision of these costs by financial resources from different sources [1].

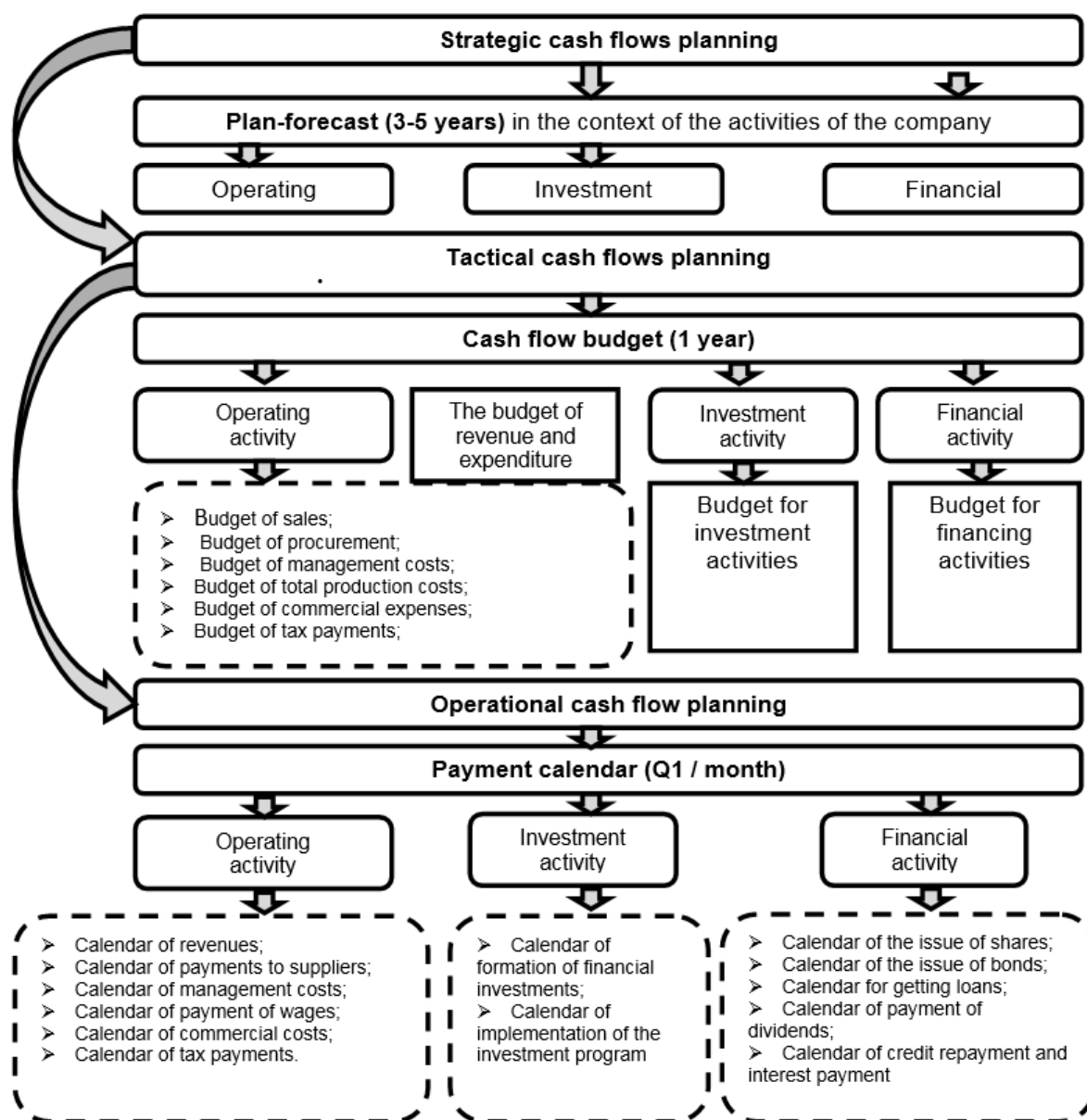


Fig.1. System of planning of the cash flows of the company

At the stage of tactical cash flows planning of the company two main documents are prepared: the budget of revenue and expenditure and the cash flow budget. Primarily the budget of revenue and expenditure is made. For its preparation operating budgets are used: the budget of sales, of tax payments, of purchasing, of administrative, commercial and total production expenses and labor costs.

The budget of revenue and expenditure calculates consistently proceeds from sales of products and costs of production, profits from sales, management, business expenses, profit

before tax, profit tax, the net profit. The budget of revenue and expenditure is made for the following purposes: to provide a positive financial result of the company; to improve the efficiency of the company; to control the dynamics of company performance.

The budget of revenues and expenditures for operating activities is one of the main kinds of the current financial plan of the company, which is made at the initial stage of the current planning of these financing activities (a set of its indicators serves as the starting point for the development of other types of current financial plans). The aim of this budget is to determine

the amount of the net income from industrial and commercial activities of the company, which serves as the main base for the formation of operating cash flows. During the development of this budget a clear correlation of planned revenues from sales (gross and net), expenditures, tax payments, balance and net profit should be provided [1].

Let us consider budgets that are parts of budgets of revenues and expenditures. The budget of revenues and expenditures is mainly formed according to operating activities of the company and includes certain budgets:

1. Sales budget includes proceeds from sales of production with detail for each type of product. It should be taken into account three scenarios of event development in the commodity market, depending on market conditions favorable to it. When budget is being made it is necessary to determine the range and product prices, sales volumes broken down into clearly defined time intervals. Especially important for budgeting of cash flow is the question of what part of the sales will be paid this month, which one is paid the next month and if you have to plan a hopeless debt.
2. Procurement budget includes estimated costs for the purchase of raw materials, components and semi-finished products required for manufacturing products. It is closely related to the sales budget. The required amount of procurement is defined as the planned sales volume plus the desired output at the end of the period minus product inventories at the beginning of the period. A complex aspect is determining the optimal supply of products by the end of the period. On the one hand a large stock of products will respond to unpredictable fluctuations in demand and shortages of supply, on the other hand cash invested in reserves don't give revenue. To reduce the required level of supply of products accounting and control system of supplies would help. It operates in real time and real value. On its basis the optimization of assortment of goods, sales of old goods to make warehouses empty and release of cash derived from sales is carried. Usually a supply of goods at the end of the period is expressed as a percentage of sales relative to planned period. This value should take into account the error of forecast of sales amounts and history of relationship with customers. When planning the volume of procurement

contracts with suppliers on volumes of deliveries, terms of payment, the availability of trade credits and the balances of goods in warehouses of the company should be taken into account. Along with the procurement budget a payment schedule of planned deliveries should be made.

3. Budget of management costs includes a detailed list of administrative costs such as: salary of management personnel, communication services and other administrative costs.
4. Another important component of cash outflows of the company is commercial and administrative costs that are defined as a separate budget while planning. Commercial costs can be of two types: related to promotions of goods in the market and their own brand identity. The first type of costs is normally funded by the manufacturer by providing promotional materials, posting information on distributors in their official sites, partial funding of publications in the media.
5. All these costs are substantial in amounts and their financing can not be planned on the residual principle. Except advertising costs the cost of storing supplies of goods is included in this section. Administrative costs include all costs of the company relating to the main activity: rents, costs for communication services, for the maintenance of own transport, stationery and other business expenses. General production costs budget includes the cost of electricity, water, heating, depreciation, maintenance of equipment, salaries and other expenses.
6. Tax payments budget includes tax payments on taxes and fees acting in Ukraine. Initial data for it is revenue from sales of goods, salaries, costs and certain characteristics of tangible and intangible assets owned by the company that appear to be objects to taxation.
7. Labor costs budget is a quantitative view of plans regarding expenditure on staff salaries. This budget also deals with planning of all payroll taxes that are transferred to the state funds.

In the context of financial activities budget for financing activities is separately formed. It includes the amount of funds on credits and

loans that are involved in the planning period, as well as funds that have to be spent on repayment of credits and interest on them. In this budget dividends paid for the year are also taken into account.

In the process of planning investment activities of the company the budget for investment is formed. This budget consists of the following sections: purchase of main assets such as equipment and real estate, formation of an investment portfolio. The budget for investing activities reflects the main aspects of financial support of this activity. The aim of the development of this budget is to determine the need for financial resources to implement the planned investment program and possible revenues of these resources in the implementation of investment activity (income from sales of property, which is eliminated in the process of its replacement, investment income).

The main document regulating cash flow and forecasting solvency or risks of insolvency of the company is cash flow budget, which covers cash flows to operating, investing and financing activities of the company. Cash flow budget is formed after the preparation of the first version of the income and expenses budget the main purpose of cash flow budgeting is to provide a deficit-free budget, balance of cash receipts and payments, as well as the solvency and liquidity of the company.

Properly formed budget allows to avoid cash deficits or at least find reserves to cover it quickly. Cash flow budget is the main tool of a short-term anti-crisis financial management of the company. It displays all forecasted revenues and expenditure of cash from the accounts of the company and shows the structure of payments to suppliers and buyers within the budget period. It reflects the expected solvency, including the need for external financing. On the basis of a given document management of the company can also use free cash balance for payments of

stimulating character, or for the implementation of any measures that contribute to profit or strengthen the image of the company in subsequent periods.

The format of cash flow budget is not strictly regulated, but it should always reflect the specifics of a particular business of a certain company. Cash flow budgeting starts with identifying the sources and components of potential cash flows in the next budget period, with the calculation of only that cash, which can realistically be delivered to the current account of the company. Initial data for cash flow budgeting are taken from subsidiary and operational budgets by financial services of the company.

Within a short-term anti-crisis financial management daily impact on the cash turnover of the company which aims to accelerate or slow it is carried out. Therefore cash flow budgeting should be based on the principles of rationality, accordance to the situations prevailing in the country and at the company itself, efficiency and liquidity.

The result of the calculations is to determine net cash flow for the fiscal period as the difference between receipts and payments of cash that is shown in cash flow budget in a separate row. The final target indicator of the fiscal period is the final cash balance, which is calculated as the sum of the initial cash balance and net cash flow for the planned period.

If the final cash balance is negative or less than the minimum prescribed standard value, in this case, a further analysis of all receipts and cash payments in order to identify additional reserves is done and a plan to attract external financing is formed.

We propose the following technology for the compilation of a balanced budget cash flow at the company (Fig. 2).

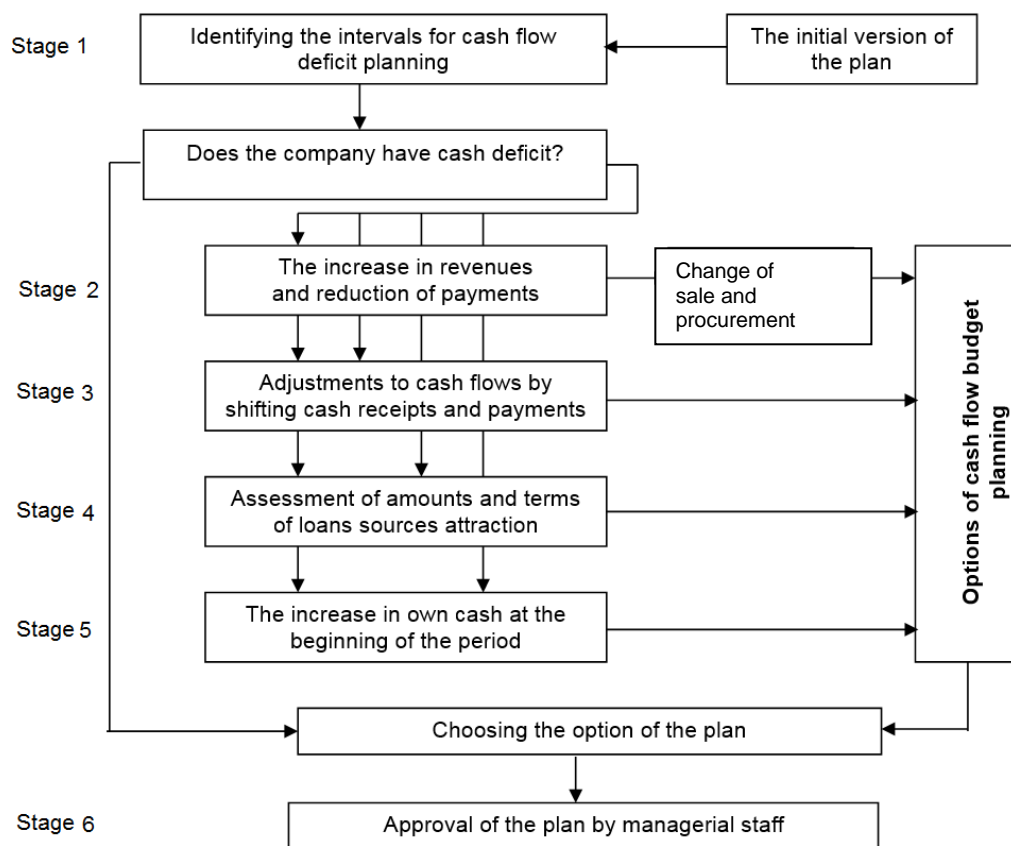


Fig.2. Technology of forming a balanced cash flow budget [4].

In case after the initial planning negative value or declining of cash balance from the standard value at the end of the period was found, the financial service should identify the period in which it arose (stage 1) through the following measures:

- preparation of background information, data collection;
- based on data provided by accounting and planning department the following values are calculated: cash balance at the beginning of the planning period for the company, the total receipts and payments on scheduled intervals considered on individual units and the company as a whole, net cash flow in terms of units and the company as a whole, the balance of cash at the end of the period;
- analysis of the results in a tabular and graphical form: cash balances and dynamics of their change in a specified number of periods of planning ahead.

If periods with negative cash balances (deficits) are found the necessary adjustments

should be done in the following ways (Stage 2):

- to increase revenues due to growth in sales in volume and value terms;
- to reduce payments by reducing the cost of goods, fixed costs, more efficient management of losses;
- to transfer receipts in earlier periods by switching to another form of products payment; to reduce the turnover of current assets, to accelerate the pace of implementation of development projects which increase revenues;
- to transfer payments at a later date by moving to a different form of payment to suppliers, to slow down or shift in time the terms of implementation of development projects;
- to increase their own cash at the beginning of the period due to the increase in share capital and the implementation of highly liquid assets.

Adjustments to cash flows by shifting receipts and payments is based on consideration of all receipts and payments in the context of

financial responsibility centers, units, product groups, projects (stage 3). Check of possibilities of revenue shift of the next interval for the current one and payments of the current interval to the next one is conducted with mandatory assessment of the consequences of the conflicts that arise with customers (because of the need to prepay) and the deterioration of relations with suppliers.

After all the above adjustments the conditions of loans sources of financing are studied, amounts, interest rates and so on are determined (Stage 4).

In the medium and long term plans to increase the cash balance the feasibility of assets of the company, issuance of shares, bonds, forming a tight credit policy for customers are considered (Stage 5). As a result of the five stages the selection and approval of the formed cash flow budget is done (Stage 6).

Thus in the planning process, which is based on forming the relevant budgets in terms of three types of the company activities, the potential cash flows are calculated. To ensure the solvency and viability of the company in the short term period in view of high dynamics of cash flows the operational planning should be used. This type of planning is the most time-consuming compared with the strategic and tactical planning, but the most effective and impartial for implementation of the purposes of anti-crisis financial management.

Revenue and expenditure budget and cash flow budget are formed up to 1 year. However, in terms of the high cash flow dynamics of the company, constant monitoring of the receipts and use of cash is required. It is implemented as forming payment calendars. Indicators in each budget are detailed in the process of forming the relevant payment calendars. Optimal horizon of payment calendar planning is one month.

Payment calendar is a plan of industrial and financial activity of the company, where all sources of cash income and expenses over a certain period of time are interconnected. It covers completely the cash flow of a commercial organization, enables to link cash receipts and payments both in cash and non-cash form, allows for permanent solvency and liquidity [5].

According to Kuznetsova I. D. a payment calendar solves the following tasks: organizing

accounting of time reconciliation of cash receipts and payments in the company; forming information base of cash management; daily account of changes in the information base; analysis of non-payments and taking steps to prevent them; calculation of short-term financing needs in case of discrepancy between cash receipts and liabilities, and the involvement of operational leverage; calculation of the amounts and terms of temporarily free cash in the organization; analysis of the financial market from the position of the the most reliable and profitable placement of temporarily free cash [5].

The use of payment calendar for purposes of operational planning is the most appropriate to the functions of the operational cash flow management under anti-crisis financial management.

Payment calendar can solve the following main tasks:

- ensure balance and synchronization of positive and negative cash flows in individual activities and the total inflow or outflow of cash on core type of activities in order to reduce the deficit or surplus of cash flows;
- it will be able to increase the investment attractiveness of the company in case the investor can make the operational control of the company;
- ensure the priority of company payments in order to exclude;
- provide the necessary absolute cash flow liquidity of the company in order to save the current solvency;
- determine the necessary amount of cash balance at a specific time in order to use temporarily free cash as part of current assets to generate additional income.

## **2. SYSTEMS AND METHODS FOR CONTROL OF CASH FLOW OF THE COMPANY.**

As part of cash flow management mechanisms an important role to systems and methods of internal control is given. Internal control of cash flows is an organized by the company process of controlling the realization of all management decisions in the sphere of their formation. It is developed to implement the policy of their development and the target indicators of current and operational plans. Establishment of internal control systems is an integral part of building the system of anti-crisis financial management of the company to ensure its effectiveness.

It is necessary to create an effective system of monitoring of cash flows of the company to ensure effective cash flow management and implementation of formed cash flow plans. A necessary prerequisite of cash flow monitoring availability is the existence of organizational structure. Measures of control will be more effective while this structure is more integrated and united.

There is no sense in planning cash flows if you do not monitor the implementation of existing plans. Internal control includes the following

steps: determining the actual condition of the company, comparing actual data with planned ones, evaluation of deviations and their degree of influence on aspects of functioning of the company, identifying the causes of those deviations.

Due to constant negative changes in the environment and economy crisis the company should constantly monitor it and make changes to the budget on the basis of the received information (Fig. 3).

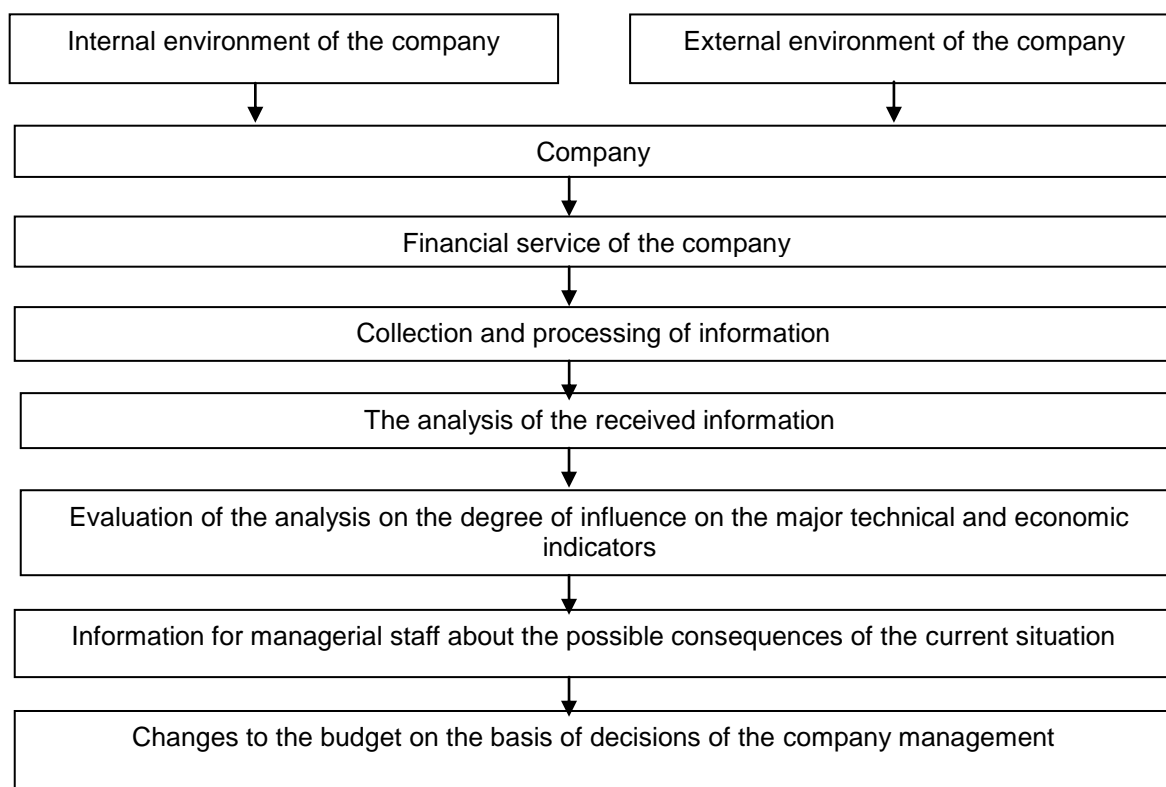


Fig. 3. The scheme of control on the stage of budget implementation [6].

The main objective of the system of internal control of cash flows of the company is providing information supply to management system for opportunities to make effective and informed management decisions. The system of internal control of cash flows is integrated with the system of their planning.

At the stage of cash flow planning the control function is implemented through the evaluation of rationality of possible options of planning decisions, compliance of planning decisions to taken installations and planned benchmarks and to overall strategy.

At the stage of implementation of existing plans it is necessary to check the correctness

of the course of realization of administrative decisions and the rationality of their implementation to achieve the necessary results.

At the stage of calculation the control should be provided over: the presence and movement of assets; rational use of productive resources in accordance with approved standards; state of taken obligations; feasibility and legality of economic operations.

At the stage of the analysis evaluation of information on the results of implementation of management decisions based on their division in various components and determining their



relationships with each other is done. Monitoring and analysis are deeply integrated. Data of control is often the basis for the analysis.

On the stage of analysis the control function is implemented. The control of quality of the analysis is a necessary step regarding the results of implementation of management decisions.

## CONCLUSIONS

So, having considered the conceptual principles of planning and control of cash flows under anti-crisis financial management of the company it is possible to develop appropriate mechanism for planning and control of cash flows of the company to ensure the effective relationship between planning and control of cash flows (Fig. 4).

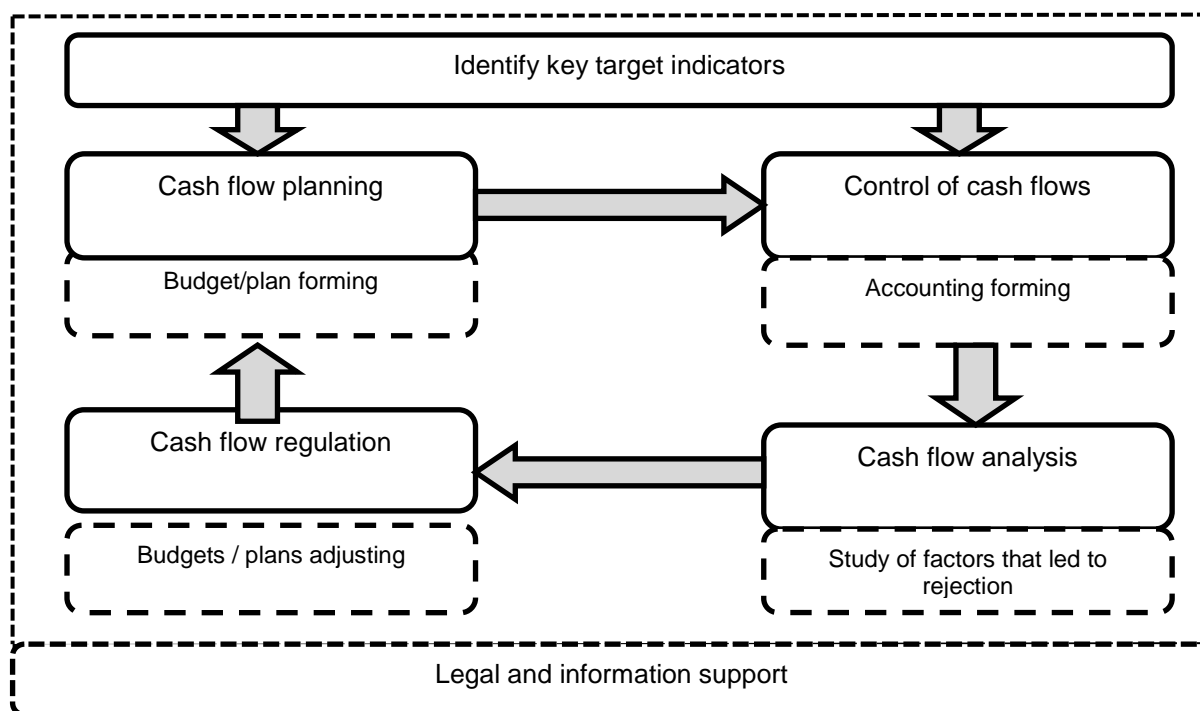


Fig. 4. The mechanism of planning and control of cash flows of the company

The aim of this mechanism is to ensure effective planning and control of cash flows in terms of the threat of financial crisis on the company. The subjects that are directly involved in the functioning of planning and control of cash flows of the company are: budget and planning department, control department, financial service of the company, the leaders of financial responsibility centers.

The main advantage of the proposed mechanism of planning and control of cash flows of the company is that it allows not only manage the liquidity and solvency of the company, but also to focus on achieving its financial sustainability in the long-term period, as it implies focus on the result (at achieving key target indicators), creating the fundamental basis to ensure effective anti-crisis financial

management and for strategic development of the company and increase of its market value.

Under the scheme of the implementation of this mechanism the next set of business processes of efficient cash flow management is released:

- Cash flow planning. During this stage the forecasting of cash flows of the company in the context of their certain types is made. It results in the cash flow budget of the company that is approved by management and includes all fees and income from operating, investing and financing activities during the planning period (announced by financial responsibility centers and having passed the inspection in terms of validity). This

final cash flow budget should ensure the achievement of the stated key target indicators of the company which serve as criteria for the efficiency of the mechanism of planning and control of cash flows of the company.

- Control of cash flow of the company. During this stage the process of control of implementation of cash flow budget is organized. It provides control of receipts and payments within the approved budget of the cash flow of the company, resulting in the cash flow accounting.
- Cash flow analysis. During this stage a plan/fact analysis of cash flows is done, the causes of deviations of factual data from the planned ones are found out. The result is an analytical report about fact/plan deviations (accounting about cash flows from cash flow budget) with justification.

- Regulation of cash flows. During this stage making management decisions to regulate the cash flows of the company is realized. It results in the adjustment of financial budgets, development of a set of operational measures to optimize cash flows due to changes in factors that affect them and achieve target indicators.

The economic effect of the introduction of this mechanism will be the ability to perform the target indicators of the activity of the company which is reflected in ensuring effective anti-crisis financial management of the company, which in its turn affect increasing volumes and profitability of cash flows, accelerating their turnover (and therefore reducing the financial cycle), achieving liquidity, solvency and financial stability, increasing staff loyalty and maximizing the market value of the company.

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