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Edo.CashFlow

Cash Flow analysis towards automation.

Cash is the fuel that drives any business. Therefore, many consider cash flow to be a company's most important financial statistic. And what better than a pre-package solution that will help you to automate a cash flow analysis. Both on subsidiary as well as on group level. And with local currency as well as currency converted figures!

Implemeting Edo.Cashflow

Background

By cash flow we mean a revenue or expense stream that changes a cash account over a specific period. Cash inflows usually arise from one of three activities— operations, financing, or investing. More formally stated, cash flow information enables the users of financial statements to readily obtain the relevant information concerning the source and application of virtually all financial resources over a given time period. A cash flow statement enables the management of a company to identify the capital amount that could be tied up in a given business segment.

Managers focus on cash for a very good reason — without adequate cash balances at the right time, a company may miss golden opportunities or may even fall into bankruptcy. The cash flow statement answers key questions that cannot be answered by the income statement or balance sheet.

The balance sheet is a snapshot of a company's financial resources and obligations at a single point in time, and the income statement summarizes a company's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues.

The cash flow analysis includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation or write-offs on bad debts or credit losses to name a few. The cash flow analysis is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities.

Why CashFlow?

The cash flow statement is a valuable analytical tool for managers as well as for investors and creditors, although managers tend to be more concerned with forecasted statements of cash flows that are prepared as a part of the budgeting process. The cash flow statement can be used to answer crucial questions such as the following:

- Is the company generating sufficient positive cash flows from its ongoing operations to remain viable?
- Will the company be able to repay its debts?
- Will the company be able to pay dividends?
- Why is there a difference between net income and net cash flow for the year?
- To what extent will the company have to borrow money in order to make needed investments?

For the cash flow statement to be useful to managers and others, it is important that companies employ a common definition of cash. It is also important that a statement be constructed using consistent guidelines for identifying activities that are sources of cash and uses of cash.

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How to automate

Many groups have invested in modern, sophisticated financial consolidation tools where data from different source systems at the subsidiary level are gathered to create a group financial statement.

The process includes; receiving the data, currency conversion using different rates, intercompany and equity elimination, group and company journaling and publishing consolidated figures. These steps are done efficiently and swiftly.

Our research shows that there is one part of the process that normally requires lots of manual intervention that is tedious and error-prone – the cash flow analysis. And this work is normally done at the very end of the consolidation process where the time limit is already stretched.

But there is a solution; Addedo has developed an automated cash flow analysis-model that is currency rate neutral. This model named Edo. CashFlow is used by several international groups. The model is generic and can be implemented by using the existing financial consolidation solution already in place at Group. To cover currency related items the model requires an expansion of the current structure. Addedo provides a utility to assure a swift implementation in an already existing Cognos Controller setup or as a part of a Cognos Controller implementation.

The main advantages with this model are;

1. Currency rate neutral

2. Easy to implement

3. All data stored in the same database

4. Ability to drill down into greater detail

5. Will produce cash flow statements on single companies, subgroups, top group and any other dimension that can be populated from Income Statement/Balance Sheet.

6. Automatically produced when consolidating the group

7. Handles investments/divestments of group companies

8. Possible to manually adjust cash flow figures

9. Handles both legal and operational structures

10. The cash flow analysis is a great tool for finding errors in data entry.

Complex CashFlow

For a company, not belonging to a group, a cash flow analysis is complex to craft but still pretty straight forward. But as soon you have to consider currency effects and acquisitions and disposals of companies the cash flow analysis becomes significantly more complex.

To help large, as well as emerging, groups to keep control of their cash in a world where fluctuating currency rates are normal, Addedo has developed an automated cash flow analysis-model. By using the existing financial consolidation solution already implemented at Group and expanding it to cover currency related items, the cash flow analysis is literally only a click away!

What if these figures require currency translation because the company is owned by a parent located in another country? And how is cash calculated when currency rates are changing? How do we present a cash flow analysis that is neutral to currency fluctuations?

For a group operating in an international environment with subsidiaries located in several countries these things needs to be handled correctly.

The final solution

The Edo.CashFlow solution contains three forms:

1. Calculation of change in balance sheet accounts, currency neutral

2. Effects of Group company acquisitions and divestments

3. Cash Flow Statement.

The summations from current Income statement, Balance sheet accounts and rows in specifications are updating the Cash Flow as a complement to the changes in Balance sheet accounts summed into the Cash Flow.

The Control tables of the Investment register are adjusted to make only applicable changes to be included in the Cash Flow.