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7.4 Management and formation of cash flows in agricultural enterprises

Cash flow can be represented as a system of "financial circulation" of the economic organism of the enterprise. Effectively organized cash flows are the most important symptoms of its economic performance as a whole.

In the long run, free cash flow, equity and debt financing are the best sources of working capital. However, these options may not be available to all businesses. In such cases, there are alternative cash flow management strategies that the agricultural business can use to ease the strain on its working capital. Here are some of them:

1. Request to make an advance or full payment.
2. Customer request to pay faster.
3. Reduce or delay costs.
4. Requests from suppliers for more favorable payment terms.
5. Purchase order.
6. Increasing margins.
7. Sale or lease of equipment that is idle.
8. Sale of future income.
9. Sale of invoices [373].

Understanding the available options, agricultural enterprises will be much better equipped to manage their working capital and, in turn, to support and increase their activities.

Agricultural enterprises that lack positive cash flow, those that pay more money than they bring in, will almost certainly be forced to close down sooner or later. Without a positive cash flow, all businesses (including agricultural ones) are unlikely to have the agility needed to respond to today's rapidly evolving business landscape [374].

Although many decision-makers understand the need for skillful cash flow management, two-thirds of all agricultural enterprises experience cash flow problems from time to time. In addition, each of the five agricultural business owners points out that cash flow problems are in fact the norm - no exception.

If the agricultural business has problems maintaining a positive cash flow, it does not necessarily mean that bankruptcy is imminent. In fact, with due diligence and redesigning the way a business operates, it is possible to understand its cash flow by giving the business access to the capital it needs to grow.

Therefore, for better cash flow management manager need:

1. Know when to rent and know when to buy. Almost all companies need equipment, facilities and property to work; whether to buy or rent them is another question. If your business is tied to cash, you may want to consider renting equipment and renting retail or office space instead of buying them directly. Apart from gaining access to the materials and space for which an agricultural enterprise must be successful when management decides to lease these elements, the enterprise does not have to link significant parts of its capital. In other words, the agricultural business will be more profitable to respond to new opportunities and address unforeseen challenges.

2. Manager needs to make it a habit to buy at the best prices. How confident is the company that you are getting the best deals on supplies, systems and utilities? Although, it is counterproductive to buy from new suppliers every other day, you should regularly re-evaluate your operations - whether it will be monthly, quarterly or even annually depending on the business. In today's competitive and connected market, there is a lack of efficient suppliers. But it is important not to choose new suppliers only on the basis of price. After all, if the shipment does not arrive on time, or cloud computing assets are not always available, the business can be very successful. So, when buying from new suppliers, it is necessary to analyze the price - this is how to solve cash flow problems. But manager should also consider the track record of new potential suppliers.

3. Reasoning of raising prices for goods and services of an agricultural enterprise. Many customers will be a little annoyed, when the company raises prices. In fact, most people are already accustomed to rising prices: health insurance costs are rising every year, rents are rising, and consumer goods are becoming more expensive. So if an agricultural enterprise has not raised prices for a long time and is trying to solve cash flow problems, then it is time to approach them optimally. But don't just increase them throughout the year; so as not to risk distracting loyal customers. Instead, by carefully

planning price increases and selling them effectively, it is possible to generate more income and more sales, while enhancing the financial and economic performance of the agricultural enterprise.

4. There are a variety of tactics that can be used to reduce the likelihood that customers will get angry when a business raises prices. To begin with, do not increase prices if you are not sure that customers are completely satisfied. You can have time to raise prices to improve your products.

5. Account is on a more direct basis. It is not uncommon for companies to wait until the end of the month to bill their customers immediately. But the longer the company waits to send invoices, the longer it will need to collect them. If the agricultural enterprise has problems with cash flow, it is necessary to consider the possibility of speeding up the invoicing process by sending invoices at the time of completion and sending orders. In this way, the company guarantees that customers will receive invoices faster - which mean faster payment.

6. Incentives for customers to pay money faster. To solve cash flow problems, you can offer customers favorable payment terms if they pay their bills early. Customers receive a two percent discount if they pay their bills within 10 days; otherwise full payments must be made within 30 days.

7. Development of new campaigns to increase sales. If sales are stagnant (or even non-existent), you need to re-equip your campaigns. If your business is struggling with cash flow, it's time to think about new ways to increase your own sales.

8. Use the invoice cleaning service. This is an opportunity to access money that needs growth immediately, even if their customers are slowly paying their bills.

9. Keeping cash flow reports. Although they may seem cumbersome from the start, regular cash flow reporting can reduce the likelihood of cash flow problems - at least unexpectedly. In general, cash flow statements track the cash inflows and outflows of an enterprise related to its operations, investments and financial activities. Although a large enterprise may not care too much about its cash flow, many small businesses choose to report on a regular basis on a quarterly or even monthly basis. By doing so,

they will be able to predict with much greater accuracy how healthy their cash flow will be in the future [378].

By drawing up cash flow reports, the company will be able to make the right adjustments to its business if necessary - whether raising prices, reducing costs or conducting new campaigns - so that the farm always has the money needed for its development.

The first step in cash management is to increase the importance of cash. The basic cash management process is straightforward. Try to maintain an adequate level of cash to meet current obligations and invest non-performing cash in profits. Profitable assets must have high liquidity; that is, businesses should be able to quickly convert investments into cash. In addition, the company wants to protect its cash balance by paying liabilities only as they arise. Cash management also involves the aggressive conversion of current assets into cash.

It is determined that at the agricultural enterprise the incoming cash flow begins at the stage of signing the contract on performance of contractual obligations (fig. 1).

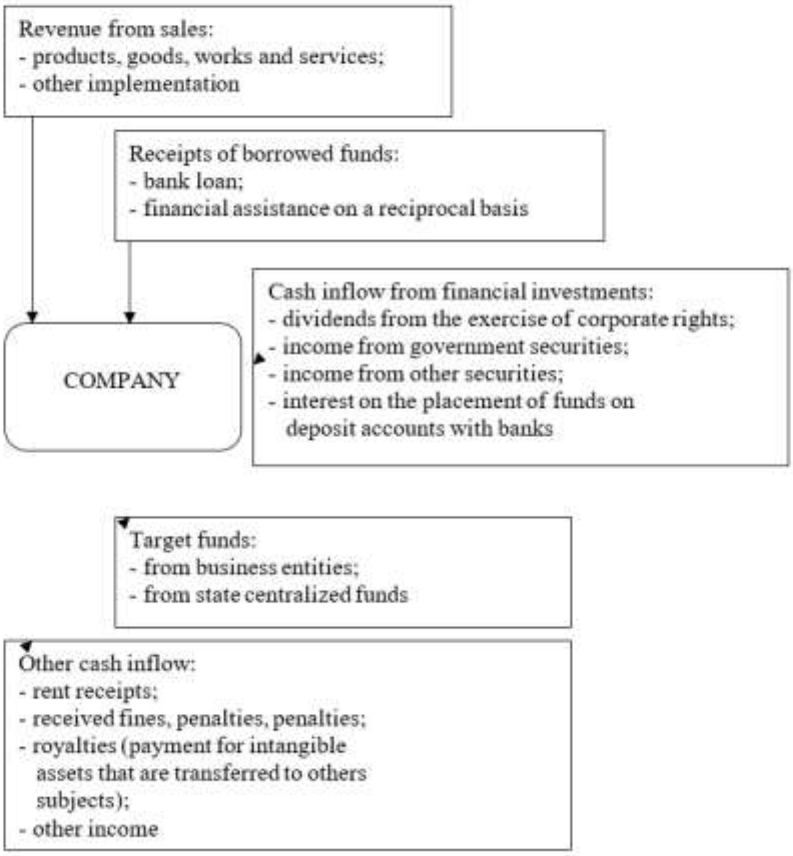

Fig. 1 Formation of cash inflows in an agricultural enterprise

Agricultural business can bring a significant amount of profit. But much of this profit can be related to receivables, which does not bring anything good if you need cash to cover operating expenses. But if the company focuses more on constantly maintaining a positive cash flow, profits will follow.

The cash outflow occurs when cash is spent from an agro-industrial enterprise or cash register (Fig. 2).

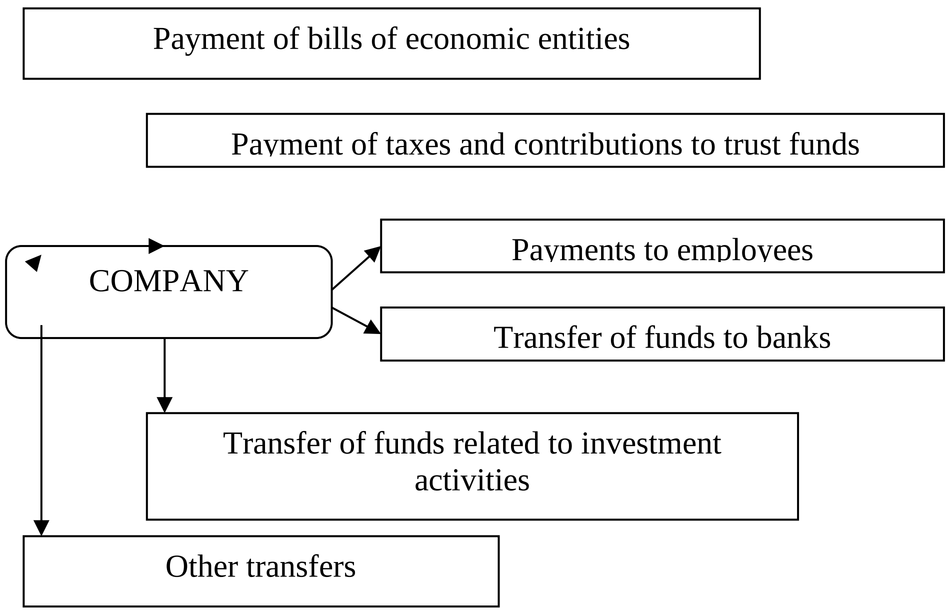

Fig. 2 Formation of cash outflows in an agricultural enterprise

Improving cash flow. The first step to improving cash flow is to understand the history of the company's cash flows. To do this, you need to plan the inflows and outflows of funds. Once the story is clear, it is possible to take steps to reduce cash outflows and increase penalties. One of the largest cash outflows is wages. Wages should be managed flexibly. Other cash traps include insurance.

As sales grow, cash needs will increase. Planning for future sales should include planning for additional cash requirements. The basic formula for the amount of additional cash required for new sales can be used to determine. The formula is calculated as follows:

Additional cash = ((new sales - gross profit) + additional overhead costs) / (sales duration of growth in days x Average number of days to collect receivables + security factor).

The basis of receivables is the policy and procedures of sales. In particular, does the company have a credit policy? When and how does the company assess the customer's creditworthiness? If you look at your past payment history, you should be able to find out who should get a loan and who should not. Additionally, you need to set the terms of sale. Is it profitable to offer discounts to speed up cash fees? What the industry standard is for terms of sale? There are several questions that need to be answered when building the foundation for receivables management [375].

A system for tracking receivables should be established. It will include a balance sheet, a list of all open invoices and the generation of monthly statements to customers. The old receivables will be used to collect overdue receivables. The company must act quickly to collect overdue bills.

Measurement - another component in the management of receivables. Traditional ratios, such as turnover, measure how many times you have been able to convert receivables into cash. The measurement will need to be modified to take into account large fluctuations within the sales cycle. The use of scales can help ensure comparable measurements.

Accounts receivable management also involves the use of a specialist. After all, you need to spend most of your time trying to reduce your losses and not trying to collect overdue bills. A wide range of professionals can help:

- credit bureau services for review and approval of new customers;
- deduction and recovery agencies;
- full account management.

Cash management in agricultural enterprises is to optimize their total average current balance from the standpoint of ensuring the continued solvency of the entity, and therefore involves the performance of certain tasks. Determining the minimum required cash for current business activities is based on the calculation of cash flows from current business transactions that occur at the enterprise.

The activity of the enterprise is characterized by a whole system of indicators, among which the indicators of cash flow assessment become important. In practice, the following cash flow estimates are used:

- debt repayment duration indicator;
- debt reversal ratio;
- net operating margin;
- indicator of the ratio of cash flow to equity, the ratio of total capital to cash flow.

To use a better form of cash management, an agricultural enterprise must be able to accurately estimate the current cash position and make fairly reliable forecasts at key intervals about how much it takes to cover the company's costs. If the company's cash flow becomes so predictable that you can leave the amounts for several months or more, you need to purchase certificates of deposit [380].

The biggest cash management mistake a business owner can make is to take risks when investing free money. This is because losing a business's cushion is too easy and may jeopardize the survival of your business by making inappropriate investments (such as risky futures gambling). Sometimes investing is not the best option. Then, when the company's financial position stabilizes and cash flow becomes more predictable, it is optimal to start exploring investment options. In particular, if the company expects to attract a large amount from investors or venture capitalists - it is useful to do some research in advance, so as not to waste time when cash comes.

When the economy is strong, agricultural enterprises may turn to inefficient cash management practices. The following options are being studied:

- bank accounts are the easiest way to get some income from the reserve funds of an agricultural enterprise; however, they only make sense if the money is more than the fee the bank will charge.
- bills at the end of the day. A safer rate for most farm business owners, these bills are awaiting late approval to determine how much to invest over the course of the day.

Typically, their return on investment is 10-20 basis points (from 0.1% to 0.2 % of investment) lower than those offered for controlled investments.

- local accounts, usually created with the help of a large money center or regional bank, provide the agricultural enterprise with a special postal code and, as a rule, faster deliveries from regional post offices. They are especially important if the company has clusters of customers in freelance places and it does not want to waste days waiting for checks to arrive at a distant post office.

Net income accounting measures economic efficiency, which is necessarily consistent with the timing of cash flows. Many profitable businesses have been wiped out by cash flow problems, often in the start-up phase. Business has three types of cash flows: operating, investment and financial. A key indicator of the effectiveness of cash flow management is free cash flow, the amount of operating cash flow generated in excess of the cash required for important expenses, such as capital expenditures. Managers should pay particular attention to the difference in the timing between when cash is collected from customers from the sale of inventory and when cash must be paid to suppliers for the purchase of inventory. The significant discrepancy between these figures indicates potential cash flow problems.

Managers and business owners who are inefficient because of cash spend most of their time surviving cash flows and are therefore distracted from making tactical and strategic decisions important to the long-term success of their business.

Similarly, many agricultural enterprises went bankrupt because they did not manage their cash flow properly. An agricultural enterprise cannot operate efficiently when it does not manage its cash flow properly to be able to repay loans, pay employees, pay suppliers and pay taxes [377].

Even profitable businesses may experience cash flow problems. Net income, or profit, is a measure of economic value added. The timing of operating cash flow does not necessarily coincide with the timing of economic performance. Cash flow problems can destroy businesses, even when those businesses have a profitable business model.

The statement of cash flows is the most recent of the primary financial statements. The balance sheet and income statement have been in place for over 500 years. In contrast, the cash flow statement first appeared in 1988, so accountants think it's completely new. For this reason, many managers still focus on the balance sheet and income statement and simply skip past cash flow data. Operating activities are what an enterprise does on a daily basis; his operations. The company receives cash from its customers, pays salaries, pays utilities, pays taxes, pays interest. This is all that is done every day. Operating activities are ordinary things that are done hundreds of times a day.

Thus, the need to create an effective management system and the formation of cash flows of the enterprise is undeniable, as well as the importance of understanding the need to develop theoretical aspects of its operation for the financial management of enterprises. The main stages of management and formation of cash flows, in our opinion, include: ensuring complete and accurate accounting of cash flows at the enterprise and the formation of appropriate reporting; analysis of cash flows for the previous period; cash flow optimization; cash flow control.