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Cash flow management in Company X

How to improve it?

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Abstract

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The main idea of this research paper is to get overview of Cash flow management theory and how it is working in the Company X. The paper utilises the secondary data as its main references, to research, assess and analyse the key problems. This thesis goes through the cash flow management theory and main points of it. This will give the understanding what is needed in order to understand the case study. The conclusion arrives to the answer for this study by tying the chapters together and their main points, and will present the answer to the question: How Company X can improve their cash flow management?

Keywords: Cash flow, Cash flow management, Direct method, Indirect method.

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Glossary

CFM - Cash flow management

FASB - Financial Accounting Standards Board

Financial cash flow - Includes the cash flow from banks, interests and dividend payments.

GAAP - Generally accepted accounting principles

IASB - International Accounting Standards Board

IFRS - International Financial Reporting Standards

Investing cash flow - Includes the cash flow from investments to infrastructure, and investments to long-term assets.

Operating cash flow - Operating activities of a company's cash.

1 Introduction

What is cash flow management? How can cash flow management affect the company's bank account without trouble? These are the questions that this paper will be answering through research and study.

Cash Flow management is one of the foundations of a functional company. It holds the daily functions inside such as monitoring in-and-outflows of the cash flow, furthermore, controlling the funds of the company. It is important for companies to have cash in their bank account in order to run daily operations. Moreover, this paper will study the cash flow management theory and a case study about Company X, how they are performing their cash flow management and how they could improve it. This includes the differentiation of cash flows, terms of cash flow management and the differences between direct method and indirect method.

This thesis will be researching, analysing and assessing all the aforementioned topic through narrowing down the theory of the cash flow management from accrual based accounting to cash conversion cycle, with the aim of studying the case study Company X.

How does direct method vs indirect method impact the company? Are there any differences? Should cash flow be divided into different parts? Is it possible to improve Company X cash conversion cycle? How important is the cash conversion cycle to companies? The aim of the study is to answer the aforementioned questions.

The structure of this thesis contains the following parts: Introduction, second chapter with 5-sub chapters, Third chapter with 9-sub chapters and the fourth chapter which is the case study about Company X. The conclusion chapter is the fifth chapter, where the researcher will be answering the research question.

2 Cash flow management

Cash flow management is predicting the future of your business cash inflows and outflows. Good cash flow management is an essential part of business that wants to thrive in the field of business. Moreover, it is the foundation of succeeding and surviving in the world of business. The word cash flow, describes the money that the company has in the business and how much of the money goes outwards. Furthermore, the cash flow management includes analysing the business numbers of the cash flow and moreover, utilising these analytics to daily business operations. With good cash flow management the business can strive for success and generate fast growth as Amazon Inc did during its growth state.

The importance of cash flow management in small-medium enterprises and multinational corporations is the foremost important thing in the company. With the cash flow management the corporation handles the incoming and outgoing money, with the target to generate more incoming flow than outgoing flow due to the reason that if the cash stops flowing, all the operations in the company stops, which can end up in the business to halt. Moreover, in the paper of (da Costa Moraes, Nagano and Sobreiro, 2015) the cash flow management models, although they are not using computer models, have reached a conclusion that cash flow management (CFM) models have not changed since the early 1950s, nor developed much. The research also states that in the future the cash flow management should use more computer models, as they can produce more complex models than the stochastic models, which are still five decades old.

Furthermore, the cash flow management differs from the other side of the coin, accrual based accounting, which is the opposite of cash based accounting, in which the cash flow management is related. The difference between accrual based accounting and cash flow accounting is that cash flow accounting is based in inflows and outflows of the cash, moreover it focuses to the cash, when it comes in to the company it is marked to the account statement and when the cash outflows the company, on that spot it will be marked to the financial statements (Navon, 1996). And on the other hand the accrual based accounting is a more complicated and complex way of viewing the state of the company.

2.1 Accrual-based accounting

Accrual based accounting is a model and an opposite of cash flow management accounting. The accrual based accounting is considered more deep,statistical and accurate than the cash based accounting. Whereas cash flow based accounting relies on the incoming cash, into the figures as to how much the balance is now, the accrual based accounting divides the cash burn in different months, as the revenue comes more predictable. Furthermore, the accrual based accounting is a financial accounting method that records the revenue even before the payment has been incurred. The accrual based accounting itself follows the principle of revenue and expenses, that they should be recognised in the same month.

The advantages of accrual based accounting is that the companies can better predict their revenue, expenses and what will be at the bottom-line. In case the company will want to adjust their revenue it is possible with the accrual based accounting as the adjustments, recognising the revenue, can be altered, although it is not recommended since the expenses should be recognised in the same month as the revenue (Frankel and Sun, 2018). Furthermore, the companies use accrual based accounting to analyse their performance and through that analysis they can predict how the month and year ends. The accrual based accounting is very commonly used also when the companies make their budgets as they will check the Profit and loss statements of last year, and then make the needed decisions of their budgets.

Accrual based numbers also provide to the companies much more accurate overview than the cash flow management accounting. In the accrual based accounting the firms will have the immediate information about their cash flow inflows and their outflows, which aids them better to predict the future and plan it as well (Hayes, 2021). The basis of accrual accounting is in double-entry technique, whereas for example company x provides a service that costs 1000€ it will be entered as debit into the accounts receivable and when the company receives the 1000€ payment from the customer, will the company mark it as credit to the accounts receivable with the amount, and then credits the revenue account, whereas the credit increases the revenue account. After the mandatory account markings, the cash can be moved around to different accounts

with the same principle of double-entry, furthermore, this can help companies to plan taxes better, which will be later explained in the section Company x - case study.

2.2 Cash based accounting

The cash based accounting is the other side of the same coin, accrual based and cash based. The latter one is defined to record the cash to the moment it occurs; the payment receipts are recorded during the period and the expenses are recorded when they are actually paid out. In other words, the revenue and expenses are recorded exactly to the moment the cash inflows and outflows (Chen, 2019).

Disadvantages of cash accounting come in reality post-haste, if the firm generates fast growth. As the cash accounting is mostly used by small to medium enterprises (SME), the cash accounting is more straightforward than the accrual based accounting. The cash accounting marks the payments as they occur, inflow and outflow and therefore, the liabilities might not be followed as precisely as in accrual based accounting. This might lead to the situation that the enterprise numbers are more off than they really are. However, on the other hand the company might be also less successful than it is in reality, for example; the company has sold an enormous amount of their services, but they have not yet collected the payment from their customers (Chen, 2019; Hayes, 2021). The phenomenon may lead in cash accounting to a situation where the method of accounting causes over- or undervaluation of the company because of the aforementioned examples. Likewise the aforementioned examples, there lies also a problem in cash accounting, specifically closing the fiscal year of the company. If the customer or the service receiver pays December 2022 service in January 2023, the company must include the payment to fiscal year 2023, and not to the fiscal year 2022. Moreover, another example is if the company generates expenses in December 2022, but they pay the expenses in the year 2023 January, may this affect the bottom line and this may lead to higher tax amounts, which the company cannot deduct since the payment occurred in January 2023 (Chen, 2019).

2.2.1 The tax implications of accruals vs. cash flow

The tax implications of accrual accounting differentiates from cash flow. First of all the cash flow is always taxed about the amount that company has marked to their cash flow statement. This bases to the cash flow statement, which uses the cash basis accounting whereas the inflow and outflow of the cash flow is marked to the cash flow statement when the firm actually receives the payment from the service recipient, whereas the accrual based accounting marks the revenue immediately while in reality the payment can be day,month, years later at the bank account.

The two different accounting methods open up for the companies an opportunity to do tax planning. For example, if company A uses cash basis accounting for their cash flow statement, they have to pay taxes on December 2022 for that fiscal year. However, there might be an expense payment that belongs to the fiscal year 2022, but the payment is made in fiscal year 2023. The payment itself will be taxed then in the fiscal year 2023. Furthermore, this would affect the bookkeeping and the numbers of company A, positively in fiscal year 2022, respectively negative in fiscal year 2023. Nevertheless, the company A could avoid this with tax planning, utilising the accrual based accounting, with that the expense payment would have been marked to the fiscal year of 2022, although the payment itself would have been made in fiscal year 2023. This way the tax payment would be allocated to fiscal year 2022, not to the fiscal year 2023, also to avoid misrepresenting the financial books of year 2022/2023.

The tax planning can be decisive for companies that operate also in other countries than their home country, for example a company that has headquarters in Finland, Helsinki and their subsidiary company is located in Germany, Berlin. For funding the osakeyhtiö (OY), which is the headquarters (HQ) of the company, they may do tax planning with accrual based accounting, as the German subsidiary (DACH) received a greater tax payment in the year than the company expected. To avoid this, HQ sends an invoice to DACH, to generate less revenue from where the taxes are calculated. Thus, DACH received less tax payment from the German tax officials, while keeping the certain amount of revenue located in Germany. In OY, this expense was allocated as HQ expense, which affected OY's revenue negatively, whereby the Finnish tax officials could not take any tax of negative revenue, as negative revenue is not taxable in

Finland nor in Germany. Therefore, the accrual based accounting is preferable for smaller companies also, even though it generates more work hours for the accounting. Elbakry et al., (2017) and Watrin, Pott and Ullmann (2012) in their research had noticed already earlier that the regulation around GAAP and with the IFRS allows the companies to do the tax planning which results in lower revenue than in reality it is. This is the downside of the accrual accounting, it may lead to lower numbers in reality than the company is.

Watrin, Pott and Ullmann (2012) raised two major points in their research and those were, presence of book-tax conformity and more diverse ownership structure with higher level agency costs between managers, motivates disregard the tax accounting. This eventually leads to the problem that it creates; poor quality of accounting.

2.3 Modified cash-basis accounting

Modified cash basis accounting is the third of the known accounting principles, as the two others were aforementioned. Third accounting method, modified cash basis accounting combines accounting methods from the two others; as it records the short term assets with cash accounting and long term assets with accrual based accounting. Main point of the modified cash basis accounting is to clarify the accounting statements and make a clearer picture of the state of the business. Modified cash basis accounting does take the main points from both accounting methods, as it records the short term assets as accounts receivable and inventory for instance to cash accounting on the financial income statement or as known profit and loss statement more commonly. Furthermore, it records the long term assets such as fixed assets and long term liabilities are recorded to the balance sheet and the depreciation and amortisation are normally recorded to the profit and loss statement (Liberto, 2021).

The advantages of modified cash basis accounting are the short term asset management and long term asset management, as the short term assets such as invoice of rent is treated in cash accounting as the invoice is related to inflow and outflow of the cash. In other hand the long term assets are treated such as in accrual accounting which gives to the company much more clearer picture of in example; property and equipment. The methods take the best of both as accrual based makes a

clearer performance picture of business, and then the cash basis accounting method makes management of costs, keeping them down where the companies can (Chen, 2019; Hayes, 2021; Liberto, 2021).

Disadvantages of modified cash basis accounting are that the method is not recognised by the International Financial Reporting Standards (IFRS) or generally accepted accounting principles (GAAP). This means that in case of auditing, the method will prove to be adequate for the auditors or to the investors. In case of auditing companies will still have to provide either cash accounting based statements or accrual based accounting statements which would be adequate enough for the auditors to make analysis of the state of the business. This results that modified basis accounting is more popular in private companies than in publicly traded companies (Liberto, 2021).

2.4 Cash flow principles in the world of accounting

All the three methods are used in nowadays businesses, as the smaller companies uses the cash accounting methods for their cash flow management, the larger companies prefer the accrual based accounting as it gives to the companies clearer picture of the state where they are in business, however this type of accounting differentiates from cash accounting as revenue is recognised differently than in cash accounting. And the third method which combines the both is more used in private companies as the modified cash basis accounting does not suit external auditors, this is why private companies may use or prefer it as an internal tool, and then for external auditors they may use cash based accounting or accrual based accounting.

As in this paper we have now gone through the principles of accounting, we have an understanding of the different ways of accounting in the companies. However, in this thesis we will focus more on the cash accounting method as the example company is currently using that as an accounting method. This helps us to understand why the company has difficulties in their cash flow management and moreover, find solutions and suggestions for their cash flow management, and how to improve it.

3 Direct or indirect method – cash flow accounting and management

Cash flow accounting consists of two methods that are used for making the cash flow statement - direct method and indirect method. Methods that are mentioned here are recognised by the IFRS and GAAP, and they are widely used for generating the cash flow statement. Moreover, the direct method and the idea behind it, is to use company actual cash inflow and outflow instead using the accrual based, which recognises the revenue to the month it occurred or when the service was handed over to the recipient. On the other hand then is the indirect method which generates the cash flow statement from increases and decreases in the balance sheet line items (Tuovila, 2019; 2021).

Both methods are equally effective, when it comes to cash flow management, however the direct method is considered to be more clearer for auditors and investors, which is the reason why companies should use it more than the indirect method. The study of Broome.O (2004) suggested that companies should be using the direct method for their cash flow statements as aforementioned said it is more clearer to read and to understand. This is why companies should rely on direct method more. Moreover, to understand the direct method and indirect method, we should understand the concept of different cash flows.

3.1 Definitions of cash flows

The definitions of cash flows will help us to understand the cash flow statement and how the cash flows are divided into three categories, Operating cash flow, Investing cash flow and lastly Financial cash flow. These three are the foundation of a cash flow statement. Moreover, with the understanding of cash flow definitions we can study the two different cash flow accounting itself in the form of direct and indirect methods.

3.1.1 Operating cash flow

As Broome (2004) in his text defines them, Operating cash flow is the amount of money that is considered to be part of the company’s operating activities, for example, the payments that are from customers, which is a huge amount of the company X daily operations, the salaries that are paid to the employees or their work.

3.1.2 Investing cash flow

Investing cash flow is the second of the three definitions, which includes the cash flows from investing into infrastructure, and other investments to the long term assets are also counted into the definition of investing cash flow. These include these following examples, cash paid for the property or vice versa selling the property and also cash invested to securities or when selling the securities.

3.1.3 Financial cash flow

The last of the three definitions is the financial cash flow, which includes the corporate raising the capital and returning the cash to the investors, creditors and shareholders (Broome, 2004). Financial cash flow includes such as inflow of cash from banks as loans, which also includes outflowing cash flow in format of interest payments, and paying the dividends to the shareholders.

3.2 Direct method

Direct method and indirect method are used to form cash flow statements whereas direct method uses the direct payments receipts of outflowing cash to deduct from inflowing cash, which will generate the net cash flow before the investments, interests and dividends are taken into account in the cash flow statement. To form the cash flow statement from one of the three cash flows; operating, investing and financing, may the company choose to use direct method or indirect method. However, the investing and financing cash flow activities in the cash flow statement will look the same, nonetheless the company chooses to use direct or indirect method.

3.3 Indirect method

Indirect method is used also in the world of cash flow statements by companies. However, this method is an old-fashioned way to present a company's cash flow statement, as it is recognised as hard to read (Broome, 2004; Klammer and Reed,

1990;). The definition of indirect method is presented as follows, the company's cash flow statement starts with the net amount of income or loss and from the net amount of income or loss will be deducted or added the non-cash revenue and expense items which will result in cash flow from the operating activities (Tuovila, 2019).

To illustrate the indirect method, company A would mark the sales of 1000€ as a debit to accounts receivable and as a credit of 1000€ to the sales revenue during the accounting period. This marking would then increase the debit amount in the accounts receivable and which would be then displayed in the balance sheet of 1000€. In this illustration, the company would have received 1000€ in sales revenue, but no cash to the bank account. Furthermore, this would lead to overstated net income in the cash basis. The extra amount of 1000€ would be in the accounts receivable in the balance sheet and order to balance the balance sheet, company should need an deduction from net income of 1000€, to increase the accounts receivable, which would be then displayed in the balance sheet as "Increase in Accounts receivable (1000€)" (Tuovila, 2019).

This procedure is seen in the world of accounting more difficult to understand than the more easier and forward direct method.

3.4 Differences of the methods - which suits Small and -medium sized companies?

Direct and indirect methods are still used in the world of business nowadays, as direct method is preferred by the Financial Accounting Standards Board (FASB) and the indirect method is used by many accountants as it is easier to form cash flow statements from the two other financial statements, income statement and balance sheet. (Tuovila, 2019). However, in the text of Klammer and Reed (1990) and Broome (2004), it is discussed and rated the indirect method as old-fashioned method and that the companies should move to direct method as it is easier to perceive by the investors and auditors.

3.4.1 Klammer and Reed test

Using Klammer and Reed (1990) as secondary data, they took action and made a test with cash flow statements that used direct method and indirect method in the 90's, using the people who were interested in the topic of indirect and direct method as terms of loan condition. The point of the test was to study how the direct and indirect method of the cash flow statement affects the decision making process of the terms of loan conditions. Furthermore, the study showed us that direct method was more effective than indirect method and the companies who used the direct method in their cash flow statement got easier loan or better loan conditions. To conclude the test results, they stated that the test group was not randomly selected, it was rather selected by those people who were interested in the topic. Although the test was not perfect it has a valid point of how professional people perceive the different cash flow statements that use different methods.

3.4.2 Comparison of direct and indirect methods

Making the cash flow statement is one of the mandatories that corporates are forced to practise when reporting their businesses state. The financial statements are also used for analysing and budgeting by the companies. This makes the budgeting process and understanding of the company state easier. However, the cash flow statement can show different depending on which method the company is using to create their cash flow statement - direct or indirect.

The direct method is considered to be better than the indirect method as Muzira (2020) in his text mentions. The Reason behind that the direct method is considered to be superior to the indirect method, is that the direct method clearly presents the information that the users of the information needs which is one of the main points when forming an economic overview of the company, moreover it helps the economic decision making process when the cash flow statement is clear and easy to understand.

As studies have shown (Muzira, 2020) the direct method information does not need re-processing likewise the indirect method, and the information gained from the direct

method cash flow statement is useful for cash flow variance analysis which is used to determine the gap between budget estimates and actuals. And the direct method provides the information for predicting future earnings more accurately than the indirect method. Moreover, one more argument that advocates the direct method, is that the IASB and the FASB recommends the companies to use the direct method.

Alternatively, an indirect method is easier to prepare, since it highlights the net income and net cash from the operating activities and moreover, the indirect method can be converted to direct method (Muzira, 2020). Regardless of the arguments that advocate the indirect method, they are less convincing than the direct method arguments, since the indirect method "compromises understandability, relevance, faithful representation and also fails to fulfil the overall purpose of preparing the cash flow statement" (Muzira, 2020).

Many of the authors states that indirect method should not be used as in cash flow statement (Klammer and Reed, 1990; Muzira, 2020; Tuovila, 2019; 2020) because of the understandability, and the information readers may interpret it wrongly as the studies have shown, auditors may lack the knowledge of understanding cash flow statement that have been created with the indirect method. In conclusion, companies nowadays should use the direct method as a foundation for their cash flow statement - to avoid the misunderstanding and to fulfil the purpose of preparing the cash flow statement.

4 Case study Company X

In this case study the main focus will be in Company X which is a subsidiary of Company A from Finland. The company X is located in Germany, Berlin and it works in the IT sector. The study will research problems of cash flow management in Company X, how they exist, how they impact the organisation, what are the possible solutions for these problems and how Company X could utilise these suggestions by using the theory of cash flow management.

Company X is located in Berlin, and generates approximately 5 million € revenue during the fiscal year. It is still categorised as a Small and -medium enterprise and is

privately owned. Due to this reason the study will be done anonymously and so that the corporation remains unidentifiable. However, the data will be based on real events and was collected from several sources. On this data is based the problems identified and the suggested solutions.

4.1 Key problems in Company X

The key problems that Company X have been recognised through using the theory of cash flow management are: use of an indirect method, contractual problems with terms of invoicing the service recipient and debt collection. The identified problems produce major problems in Company X, which eventually leads to a poor cash conversion cycle. Which creates the problem that every company in the business world wants to avoid - less cash at the bank account than there should be.

The use of an indirect method should be only for internal use (Broome, 2004) and the information users should be aware that the cash flow statement has been made with the indirect method. Otherwise this creates the problem that it is hard to forecast the revenue, cash inflows and outflows. And when there is no forecast it is hard to make right-minded decisions, it will affect the economic decision making process of the management. From here the problem flows down to contractual problems with the service providers, as it seems that the cash flow is in a state that the company does not have a problem with, but in reality the business state may be much inferior than expected.

Contractual problems derive from the management decisions to allow service providers to make their own decisions of terms. For example, service providers may change the terms of invoicing the service receiver in order to close the sales. Furthermore, this creates a problem of cash conversion cycle, the revenue to cash, performance will drop as Company X cannot generate as much cash to their bank account when there is no justification for the invoice. Moreover, the allowing of service providers to change the terms of invoice created another problem, the last point of this case study.

The management of Company X, by allowing aforementioned, created a problem internally which affected the cash flow. Accounts receivables grew in relative to the

new orders made by the service providers. The accounts receivables were handled by the support functions of the company, by manually going through the service recipients and if they had debt or they disputed the invoice. This manual work is a bottleneck of Company X since it is time consuming going through all the recipients through one by one. This led to Company X buying outsourced service to lower the amount of the accounts receivable, to generate faster cash to the bank. However, this solution was not sustainable, as the outsourced partner did poor work and was not efficient enough for the Company X needs. The lack of automated work led to the decision that Company X ended the partnership. After all these key problems affect the bottom line of the company and should be fixed.

4.2 What are the consequences of the key problems?

First challenge what the indirect method creates that is incomprehensible in what state the business is, however the indirect may be undemanding to use in a cash flow statement but it generates problems that have far-reaching consequences as studies have shown (Broome 2004; Muzira, 2020). By wielding the indirect method, it "compromises understandability, relevance, faithful representation and fails to fulfil the overall purpose of preparing the cash flow statement" (Muzira, 2020) which produces a more demanding cash flow decision process. Management may make false decisions regarding cash flow decisions, therefore, they may not fully understand what is behind the cash flow numbers and this may lead to poor decisions of hiring process and who is let go in the company.

Second challenge that Company X has is the contractual problems with the terms of invoicing and agreements with the service receiver. As the services are not congruent as the service providers could alter the terms of invoicing in order to close the sales and make profit to themselves. The alteration of invoicing terms led to another problem, falsely sent invoices and that produced more working hours to the support functions as they needed to solve the problematic invoices. Eventually, the falsely sent invoices started to pile up, and commenced to affect the cash conversion cycle - revenue to cash. Moreover, the affection for the cash conversion cycle created another problem, the third key problem, when the false invoices started to pile up, which meant more debt collection for the company.

Third key challenge that Company X has faced is the debt collection itself. The cash conversion cycle was affected by the terms of invoicing and afterwards the accounts receivable generated faster growth than expected. In order to control the cash flow, Company X needed a quality debt collection procedure. However, this unexpected growth in accounts receivable spawned panic inside Company X, which led to hiring the outsourced partner for debt collection, moreover, Company X did not study the partner enough whatever generated more disorganisation. Third party partner did not understand the needs of Company X, by looking just at the indirect cash flow statement and the accounts receivables, they made poor decisions.

Third party partner did with their own decision, new challenges to the company, by collecting the debts as promised, not just from those who had not paid but also from those who had already paid their invoices.

Soon after this the debt collection returned back to Company X, as the partner was released from its services. This led to one enormous problem, Company X has now more accounts receivable than ever, due to the poor partner as it did not work as planned. The debt collection is still nowadays manual work and depletes a lot of man hours for limited income.

4.3 Uncovering the possible solutions

The fact that Company X is still using an indirect method, is one of the challenges that Company X is facing. Therefore, Company X should change to use the direct method as the expenses could be divided into three different cash flows, operating,investing and financial. The solution generates more simple reports to follow, which makes cash flow statement predictability more accurate thus, making it more straightforward to budget the business. Moreover, when the cash flow is divided into three divergent cash flows, operating, investing and financial, it will be more effortless to analyse the different expenses and incomes. As analysing the incomes and expenses it will be easier when the support functions can divide the cash flow to the three classes of income so that the reports will also have the three different income or outflow. Such a report helps the company to identify where it needs to focus more and where it can

generate more income for example lowering the expenses thus, would this also help the management of Company X to see where the contribution is sufficient enough to generate positive or negative revenue if needed.

The problems with the contracts and terms of invoicing could be avoided by not letting the service providers change the terms themselves. The possible solution should keep only one option, one format that the service providers would use as their terms of invoicing to the service receivers. Moreover, the actions of changing the contract has far-reaching consequences with the cash conversion cycle. Furthermore, Company X should teach its employees what the cash conversion cycle is and how every decision matters to that. Such lessons would be a price above the rubies to the company as the employees would understand that their action can make the difference to revenue be positive or negative. Also the management itself in Company X should start using the updated cash flow statement as a tool. When the cash flow statement would be made with a direct method, could the managers see how the single action can make the difference. Through understanding that every action matters, could the management do the necessary changes to their forecasts and make better decisions via the updated cash flow statement that would eventually lead to better revenue and cash flow management.

Understanding that every action matters, Company X needs to tell their service providers that their contractual problems creates another problem, it generates more to the accounts receivables. Moreover, the debt collection could be possibly solved by doing improved research about Company X needs and also by doing more background research of the partner who manages the debt collection. Furthermore, the process itself should be more automated instead of manual work. As in the aforementioned chapter, the lesser contractual problems would already affect the accounts receivables by reducing them. The amount in accounts receivables could be the lesser, which would mean less work in the support functions, as the support function could focus on generating revenue to Company X. This would in course of time lead to increased revenue and improved cash conversion cycle.

Suggestions preceded, could be the first steps in the road of forging an improved version of Company X. As most of the businesses goals is to generate revenue to its

investors and to its owners, should Company X consider its strategies and how it performs the cash flow management. Moreover, studies have shown that choosing indirect method over direct method establishes a situation where the management may be confused about the financial statements or they may lack the knowledge of the indirect method which itself causes problems. Thus, choosing the right decision generates a noticeable impact to the companies. Due to this, all of these recommendations should be implemented immediately, in order to improve the cash conversion cycle, thus the cash flow management. The implementation of the improvements would form the basis for Company X, to be more interesting in the eyes of the investors and auditors, which would be the ultimate goal - generate interest and therefore, more profit and revenue.

5 Conclusion

The goal of this thesis research was to study Company X and how they handle their cash flow management through cash flow management theory. In order to do this the document followed the structure of theory and then applied the theory to the case study of Company X.
First of all, the cash flow management theory was thoroughly gone through, in order to build the understanding of the research, which included the main points of differences between accrual- and cash based accounting. Also the differentiation between tax applications on accruals vs. cash basis are gone thoroughly.
Secondly there was a financial overview of direct and indirect methods, what they are, how they affect the cash flow statements and moreover, how they are implemented in theory.
The last and third point was to study company X, what Company X does, how they are managing their cash flow, are there any key problems that can be pointed out, if yes, how they can be solved by trusting to the cash flow management theory. By using the management theory, it was assessed how Company X could for example improve their cash conversion cycle, revenue to cash cycle to be more superior compared to its competitors.

The all studied facts and theories that have been presented in this thesis, are scientific articles found on the internet, are secondary sources. This states, it is safe to assume

that my research question is fulfilled with the answers to the points of cash flow management in Company X and how to improve it? Through well balanced planning and the right choices by the management it is possible to generate exceptional cash flow thus improved revenue, which is the ultimate goal of companies. As there is no right or wrong answer yet, should the research work in the Company X, and it should fabricate a good starting point for the next studies.

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Appendices