

# REVIEW OF THE SYSTEM OF CORPORATE CASH FLOW MANAGEMENT

Vinnitsia National Technical University

## Abstract

*Theoretical and methodological analysis of the terms «cash flow management» is considered. Approaches of national and foreign authors with regard to the term «cash flow management» are analysed. The terms «cash flow management» and «cash management» are compared.*

**Keywords:** *cash flow, corporate cash flow management, cash management, stages of cash flow management, process of cash flow management, purpose, functions of cash flow management.*

## Анотація

*Теоретичні та методологічний аналіз термінів «Управління грошовими потоками» вважається. Аналізуються підходи вітчизняних і зарубіжних авторів щодо терміна «управління грошовими потоками». Порівнюються терміни «управління грошовими потоками» і «управління готівкою».*

**Ключові слова:** *рух грошових коштів, корпоративне управління грошовими потоками, управління грошовими коштами, етапи управління грошовими потоками, процес управління грошовими потоками, цілі, функції управління грошовими потоками.*

Cash flow management is an important part of the general management system of financial activities. It enables solving acute problems of financial management and it complements its main goal. If a company does not manage cash flow correctly, it may critically run out of cash, be forced into highinterest short-term financing or even fail altogether. Because of this every business should have a system of cash flow management to know its current financial state, and, what is the most important, to plan its future financial moves.

Among the scholars, there are many approaches to determine the essence of corporate cash flows management, for example, U.Y. Rolko notes that "cash flow management is one of the most important segments of financial performance at an enterprise, that is why both current results and future growth rates of an enterprise depend on how efficiently a company is organized" [1]. Such understanding is quite simple and in general it is true but the emphasis is made only on the importance of corporate cash flow as it is; at the same time, it does not reveal the peculiarities of the essence of cash flow management and the differences between this sphere of management and other management processes which also influence a company's functioning.

L.A. Kovalenko and L.M. Remnova suggest that "cash flow management presupposes a goal-directed impact on the process of cash accumulation, its spending and redistribution in order to balance financial and economic activities of an enterprise" [2]. This definition does not include an explanation of the methods or tools due to which cash management process of a company can be implemented.

A.M. Poddyeryohin defines cash flow management as "maintenance of an appropriate level of liquidity and solvency of a business entity which is achieved by the appropriate organization of cash flows over time" [3]. This interpretation does not show methods or means of cash flows management and does not include the impact of different features of corporate cash flows, with the exception for the two above mentioned.

Webster's New World Finance and Investment Dictionary offer such definition of cash flow management: "the process of planning a company's schedule for paying bills and estimating when income is likely to be received. Cash flow management helps a company avoid damaging its relationship with creditors

by not paying bills on time and being forced into bankruptcy” [4]. Such definition, in our opinion, may take place because it reflects some aims of cash flow management but it is not complex, for example using the process of cash flow management companies are dealing not only with creditors to maintain normal financial state; their relations with debtors are also quite important because they are a source of cash inflow that may cover bills.

M. Mawdesley, W. Askew and M. O'Reilly understand cash flow management as the process that include financial plan which represents the planned position throughout a project and as such is concerned with the income, expenditure and net cash flow, this enables the cash flow situation to be monitored using approaches such as pre-project cash flow plan or forecast, project phase monitoring/updating and monthly cost/value reconciliation [5]. Such understanding is appropriate but the process of cash flow management may be connected not only with financial plans, we understand that this is day-to-day management which often may be greatly changed under the impact of market conditions and considering internal state of a company; so in order to manage efficiently the companies cannot always fulfill their initial financial plans.

Foreign scientific resources [6] often introduce the term “cash management” for describing the processes, tool and methodology which are used in cash flow management; thus, the last notion becomes identical to that of cash management. In our opinion, it would be better to use the term “cash flow management”, the main reason for this is understanding of the difference between “cash” and “cash flow” by both native and foreign scientists. “Cash is ready money in a bank or in business. Cash flow refers to the movement of cash into and out of a business” [7]. Taking into account this perception, the term “cash management” may be considered as narrower and remains a component of corporate cash flow management.

N.S. Barabash, M.O. Nykonovych noted that "the main purpose of cash flow management is to ensure financial balance of an enterprise in the process of its functioning and development by balancing inflows and outflows of funds and representing such changes in accounting" [8]. In our opinion, in this case, the objective of management includes its main task which essentially provides basic understanding of the necessity of cash flow management, pointing on the main essential difference between cash flows and other processes of financial management.

According to Z.V. Herasymchuk and I.M. Vahovych, the objectives of cash flow management are: "balancing cash flows by the types of business activity, finding a compromise between the needs to provide liquidity of the funds and the desire to invest available cash in order to increase its profitability, balancing the bulk of inpayments and expenditures of funds over time".

Such tasks of corporate cash flow management definitely take place; in our opinion, they should be considered aggregated, namely in terms of operating, financial and investment activity of a company. Thus, we consider that, it is feasible to complement the above mentioned tasks of cash flow management by other ones, such as: optimization of cash outflow and maximization of cash inflow in terms of investment activity of a company. Cash flow management system implements its main purpose and main tasks by performing certain functions. Cash flows functions are outlined the most completely in the book "Corporate cash flow management" written by I.O. Blank.

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**Tetyana Kostiuk – student, Faculty of management Vinnytsia National Technical University, Vinnytsia**  
**Supervisor: Boyko Yuliia Vasylivna, teacher of Foreign Languages Department, Vinnytsia National Technical University, Vinnytsia, [julivasb@gmail.com](mailto:julivasb@gmail.com)**