Influencing the components of the cash-to-cash cycle

Finance

Finance and accounting Introduction Evidently, from the deductions and the recommendations drafted in the case A of this particular scenario, it is critical that we master and understand the various financial structures in a bid to generate as much profit as possible. Notably, with reference to this particular company, we notice that there is a deficiency in the working capital model which is the financial model that aids in the monitoring of the day to day expenditure of the company. In fact, the company dwells on the future fixed investment as opposed to the current working capital. On the same note, it is clear that the company cannot monitor or calculate their profits adequately since they have not put in place the appropriate mechanisms to support this particular venture. Furthermore, the case study shows that the management of the company in question also focuses on the company's debt structure. Essentially this is a good move, but there is the need to also lay emphasis on the working capital aspect of the company since this is an important part of the company that comes in handy during the fundamental analysis of the company is carried out. However, this paper strives to highlight some of the cash models that need to be incorporated in a bid to curb the looming crisis that is going to face the company as a result of the lack of this important aspect of the company model.

First and foremost, the working capital can be defined as the metric for the calculation of the company's liquidity. Apparently, the approach of working capital is the most appropriate approach to be undertaken by this particular company. On that note, the analogy of working capital will come in handy since the assets to be liquidated in this particular business are dependent on the time period of investment. In simple terms, the current investments are not to be liquidated in the short term but on the long term. However, in the instance of high working capital, this indicates that a huge sum of money will be constrained in the bank accounts receivables and the inventory of the company. Consequently, this can be characterised as a level of pure investment strategies since the time at which the money is constrained in the bank accounts, profits could have been generated and thus the company's profit margins could have risen drastically. Thus it is worth noting that the working capital could also be used as a means for the measurement and the determination of the liquidity state of the company. On the same note, this approach could serve to better the company both financially and in terms of their service terms. Moreover, with the adoption of the working capital analogy, the service terms of the clients will need to be revised in a bid to keep check of the financial situation of the company. Essentially, it is evident that the company had no strategy regarding the monitoring of the terms of service which benefit the company. Subsequently, the clients of the company have been able to reap maximum advantages by exploiting the company's poor financial policies. Therefore, in order to prevent these occurrences in future, there is a need to put in place the appropriate financial model to facilitate this progress.

On the contrary, it is mandatory that the company adopts a simple cash model to aid in the smooth running of the company. On the same point the simple model should contain a mechanism in which the financial records are drafted for the purpose of future reference. In addition to that, this is aimed at ensuring high levels of accountability of the finances of the company. Furthermore, the model should contains a method of evaluating the various attributes associated with the business for instance the profit margins in relation to the income, expenditure and the savings. Essentially this serves to establish the profitability of the business among other important information for instance the stock prices among others. Moreover, the cash model should also incorporate and document the profit values in a bid to establish and account fully for the expenditure.

In conclusion, it is evident that the working capital analogy will served to improve the terms of business in this company if incorporated the simple cash model. To this end, it is critical to understand the basics of business before undertaking or embarking in any business venture.

Reference

Griffin, Ricky W., and Ronald J. Ebert. Business. 2nd ed. Englewood Cliffs, N. J.: Prentice Hall, 1991. Print.