

# Cash flow problem case study

[Business](#), [Company](#)



The movement of money within a business is defined as cash flow. It entails both income and expenditure, and it's the key for the survival and growth of any business.

Cash flow problem arises when the business experiences poor cash flow, i. e. when the expenditure is beyond what the income can sustain, due to poor cash flow management. Cash flow problem (poor cash flow management) comes as a result of too many debtors; over- investment; too many Creditors; over trading; and over-financing.

### **Reasons why Tree Trimmers Limited had Cash flow problems**

Too many debtors –

The Company had too many debtors. It also had poor debt collection strategies which made it suffer from bad debts.

Over investment –

The Company spent heavily in buying the equipments including two new pick-up trucks and chainsaws.

Over financing –

The Company's employees demanded a 50% higher wages.

### **Consequences**

Cash flow problem made the company to experience lack of adequate funds which could sustain its operations. The company risked a collapse. Due to its poor debt collection strategies, the company could not avail funds in time.

Also due to bad debts, which resulted from the company's poor management, it suffered great losses. The company invested so heavily that

the available funds could not meet its expenses. As a result, the manager had to look for bank assistance. Here, the company is only offered 80% of the invoice value of the bank's factoring service.

### **Two ways that could reduce the cash flow problems**

The company could have reduced its investments. It is shown that the company heavily invested in the equipments as it bought two new pick-up trucks and chainsaws. Instead of buying these equipments, it could have rented the equipments.

Also, the company could have reduced the number of debtors. This could have been achieved through employing strategies which would make the customers pay in time.