Working Capital Analysis

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Keep cash flowing with the working capital calculator

This module helps you assess the effectiveness of your working capital cycle and its impact on cash flow.

Working capital is the money you need for the day-to-day operations of your business. It is the cash tied up in the liquid assets of your business less the credit you have from your suppliers. By optimising your working capital cycle, you can reduce the amount of time between purchasing stock or doing work and collecting the cash from the corresponding sale or service.

The working capital calculator helps you:

- Understand the relationship between the individual elements of working capital and cash
- Assess the cash impact of shortening the time between making a sale and collecting the cash from your customers
- Assess the cash impact of reducing costs and managing your creditors more efficiently
- Evaluate the way you manage working capital in your business – improvements in DSO and DPO metrics are good whilst deteriorating metrics require further investigation.

Metrics used in charts

- This report is provided only to CommBiz customers.
- This module leverages the current account permissions on CommBiz. You are only able to view cash flow for accounts that you have been given permission to view or access.
- Accounts with less than 3 months data will not have cash flow projections.
- **Days Sales Outstanding (DSO):** The number of days between recording a sale and collecting the cash.
- **Days Payable Outstanding (DPO):** The number of days it takes to pay creditors after incurring an expense.
- **Cost reduction:** Identifies key costs to understand the impact that cost savings have on cash flow.

How to use this information

This section explains how you can use the information within the Working Capital module.

Days Sales Outstanding (DSO) – Assess the cash impact of shortening the time between making a sale and collecting the cash from your customers

DSO is the number of days between recording a sale and collecting the cash. An increase in DSO means it is taking longer to convert sales into cash, which could mean there is a problem with the quality of your business' debtors. Before you enter any data, you will see a chart which shows you your projected cash balance. This cash flow projection is based on your historical cash flows and if you make no changes to your working capital, this is your estimated cash flow projection for the next 12 months. It is the same projection from the *Cash flow – Trend analysis* module.

You enter:

- **Annual sales:** Your total sales revenue for the last 12 months.
- **Receivables balance:** Your current accounts receivables balance.

The rest is calculated for you:

- **Average sales per day:** Calculated by dividing your annual sales entry by 365 days.
- **Average net cash flow per month:** A monthly average of your projected net cash flows over the next 12 months. This changes as you adjust your DSO.
- **DSO:** Calculated by dividing your receivables balance by your annual sales, multiplied by 365 days. Adjust the slider to assess the cash impact of shortening the time it takes to collect from your customers.
- **Cash flow improvement:**
  - **Monthly:** Your monthly cash flow improvement from shortening your DSO. Conversely if your DSO lengthens, your cash flow will be negatively impacted. For each consecutive month the monthly cash flow improvement accumulates
  - **Next 12 months:** Your cash flow improvement for 12 months.

If you want to speed up your collection, consider these options to improve your DSO:

- Give your customers easier ways to pay you on time – offer your customers a range of options.
- Invoice quickly and actively manage unpaid accounts.
- Use CommBiz to keep track of cash inflows across all of your Commonwealth Bank accounts and download daily electronic reconciliation files to your preferred accounting package.
- Ask to be paid by credit card or electronic funds transfer, so that you don't spend time waiting for cheques to clear.
- Ensure your invoices are accurate – incorrect invoices can delay payment.
- Resolve invoice disputes or issues prior to due date.
- Improve reporting and monitoring of your customers' payment terms and identify persistent late payers.

Days Payable Outstanding (DPO) – Assess the cash impact of maximising your payables

DPO is the number of days it takes to pay creditors after incurring an expense. Strike a balance between conserving cash and keeping creditors happy. Before you enter any data, you will see a chart which shows you your projected cash balance. This cash flow projection is based on your historical cash flows and if you make no changes to your working capital, this is your estimated cash flow projection for the next 12 months. It is the same projection from the *Cash flow – Trend analysis* module.

You enter:

- **Annual cost of goods sold:** Your cost of goods sold for the last 12 months.
- **Payables balance:** Your current accounts payable balance.

The rest is calculated for you:

- **Average cost of goods sold per day:** The annual cost of goods sold divided by 365 days.
- **Average net cash flow per month:** A monthly average of your projected net cash flows over the next 12 months. This changes as you adjust your DPO.
- **DPO:** Calculated by dividing your payables balance by your annual COGS, multiplied by 365 days. Adjust the slider to assess the cash impact of lengthening the time to pay your suppliers.
- **Cash flow improvement:**
    - **Monthly:** Your monthly cash flow improvement from lengthening your DPO. For each consecutive month the monthly cash flow improvement accumulates.
    - **Next 12 months:** Your cash flow improvement for 12 months.

Consider these options to improve your DPO:

- Consolidate your business with fewer suppliers to improve bargaining power and improve terms of trade.
- Centralise procurement so purchasing power is leveraged.
- Cut paperwork and simplify expense management with electronic payment solutions such as BPAY or direct entry.
- Always review and negotiate your payment terms with suppliers carefully.
- Ask for better payments terms or a discount and check if early agreed payment discounts are being used.
- Prevent duplicated payments.
- Compare the payment terms that you have agreed with both your customers and suppliers - make sure you're not paying your bills too fast while your customers pay you slowly.
- Use CommBiz to create templates and scheduled payment files, simplifying or automating recurring payments.
- Always consider the risk to the supply chain if payment terms are extended too long. Balance price, service and terms to get the best overall result.

Cost reduction – Assess the cash impact of reducing costs

Keeping a control on costs will help you remain competitive. Identify key costs and review the impact that cost savings will have on your cash flow. Before you enter any data, you will see a chart which shows you your projected cash balance. This cash flow projection is based on your historical cash flows and if you make no changes to your working capital, this is your estimated cash flow projection for the next 12 months. It is the same projection from the *Cash flow – Trend analysis* module.

You enter:

- **Annual cost forecast:** Your cost forecast for the next 12 months.

The rest is calculated for you:

  - **Total costs per month:** Your cost forecast divided by 12 months.
- **Average net cash flow per month:** A monthly average of your projected net cash flows over the next 12 months. This changes as you adjust your costs.
- **Cost adjustment:** Adjust the slider to assess the cash impact of reducing costs.
- **Cash flow improvement:**
  - **Monthly:** Your monthly cash flow improvement from reducing your costs. For each consecutive month the monthly cash flow improvement accumulates.
  - **Next 12 months:** Your cash flow improvement for 12 months.

Customer confidentiality and privacy

CBA is bound by confidentiality and privacy obligations in respect of customer data. We will not disclose information for concentrated industries or locations or names of individual customers. All information is provided at an aggregated level only.