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ANALYSIS OF CASH FLOWS IN BUSINESS ENTITIES: METHODS, FACTORS, AND MANAGEMENT IMPLICATIONS

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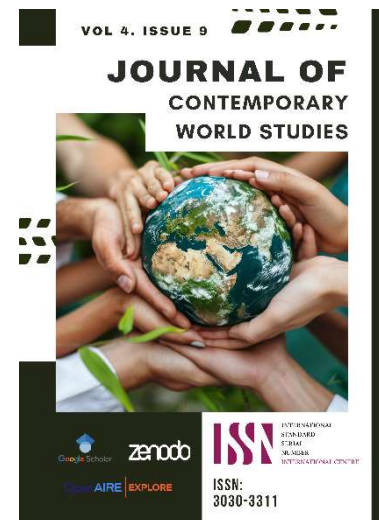
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ANNOTATION:

This thesis investigates the analytical framework for assessing cash flows in business entities, with emphasis on the classification of flows by activity type, the identification of internal and external factors affecting free cash balances, and the application of the operational and financial cycle concepts. The study systematises the analytical tasks related to cash flow management and substantiates the author's definition of free cash funds. Practical recommendations are offered for improving cash flow analysis in small and medium-sized enterprises under the conditions of progressive digitalisation.

KEYWORDS:

cash flow analysis, operational cycle, financial cycle, free cash funds, direct method, indirect method, cash flow management, SMEs.



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1. Introduction

Cash flow analysis constitutes one of the most critical functions of financial management in any business entity. The ability to generate sufficient cash inflows in a timely manner and to deploy available resources optimally are jointly decisive for sustaining operational continuity, meeting financial obligations, and creating shareholder value. Despite the widespread adoption of automated accounting systems, analytical approaches to cash flow management remain underdeveloped, particularly in small and medium-sized enterprises (SMEs) for which the cost of sophisticated information systems may outweigh the benefits.

The primary objective of cash flow analysis is to assess the entity's capacity to generate cash sufficient to cover current expenditures on time, and to quantify the volume of temporarily idle funds and the duration of their possible alternative deployment.

2. Classification of Cash Flows by Activity Type

In accordance with IAS 7 and NAPS No. 9, cash flows are classified into three categories depending on the nature of the underlying business activity:

- **Operating activities:** Inflows include receipts from the sale of goods and services, royalties, commissions, and insurance proceeds. Outflows include payments to suppliers, employees, and tax authorities. Operating cash flow is the primary indicator of the entity's ability to generate cash independently of external financing.

- **Investing activities:** Inflows arise from the disposal of non-current assets and financial instruments. Outflows include purchases of property, plant, and equipment, intangible assets, and long-term financial investments. This category reflects

the entity's strategy for capital allocation and long-term value creation.

- **Financing activities:** Inflows include proceeds from equity issuances and borrowings. Outflows include repayment of loans, lease liabilities, and dividend payments. This category reveals how the entity raises and returns capital to providers of finance.

3. Operational and Financial Cycle Analysis

The duration of the operational cycle — the period from the acquisition of production inputs to the collection of cash from customers — depends on the entity's asset structure, production technology, scale of operations, and the terms of contractual relationships with counterparties. The longer the operational cycle, the greater the entity's need for working capital financing.

The financial cycle represents the period during which cash is effectively idle, i.e., diverted from active circulation without generating value. During this period, funds do not create additional value, thereby representing a potential opportunity cost. Minimising the financial cycle — through accelerated receivables collection, optimised inventory management, and extended payable terms — is a key lever of cash flow management.

The author defines free cash funds as the cash balances in settlement accounts and on hand of a business entity that do not participate in the current business cycle during a defined time interval. Effective management of free cash funds requires a structured analytical programme aimed at reducing the risk of idle cash.

4. Factors Affecting Free Cash Balances

Factors influencing the volume, dynamics, and movement of temporarily free cash balances are classified into external and internal categories.

External factors include:

- Macroeconomic conditions and sectoral dynamics in which the entity operates;
- Regulatory framework governing commercial operations at national and international levels;
- Regional socio-economic environment;
- Exchange rate volatility and inflationary pressures;
- Interest rate policies of commercial banks.

Internal factors include:

- Settlement terms negotiated with contractual counterparties;
- Characteristics of the production and commercial cycle;
- Type and scale of business activity;
- Staff competence and qualifications;
- Efficiency of business processes;
- Pricing and financial policies of the entity;
- Accounting policies adopted by management.

5. Analytical Tasks and SME**Implications**

A comprehensive cash flow analytical programme encompasses the following tasks: daily operational monitoring of cash risk; control over the designated use of funds; timely reconciliation with counterparties, employees, and banks; diagnostics of absolute liquidity; and forecasting of the entity's ability to meet maturing obligations.

Additional analytical tasks include: measuring the velocity of cash circulation across business processes; analysing cash transfer flows between operational phases; selecting investment placement options in accordance with stakeholder requirements; and evaluating the targeted allocation of cash across business processes.

In the context of progressive digitalisation, most of these tasks are amenable to automation. However, for SMEs where the cost of enterprise information systems exceeds the potential benefits, open analytical methods and risk-based approaches offer a practical and cost-effective alternative. Strategic analysis must simultaneously address two competing imperatives: maintaining sufficient liquidity to meet current obligations and deploying available funds productively to generate returns.

Conclusion

Rigorous analysis of cash flows, grounded in a clear classification by activity type and informed by the concepts of the operational and financial cycle, provides management with actionable insights for improving cash flow governance. The identification and systematic reduction of idle cash periods is a practical mechanism for enhancing enterprise value. The author's proposed definition of free cash funds and the structured classification of influencing factors provide a conceptual basis for the development of targeted cash management strategies, applicable across enterprises of varying size and sectoral affiliation, including SMEs operating in resource-constrained environments.

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