

The Ministry of Education of Azerbaijan Republic

Title of Dissertation

Cash management, its control and analysis of cash problems in small-scale business enterprises

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JUNE 2018

Acknowledgements

Initially, I am thankful to our rector- Adalat Muradov, my dean Aida Guliyeva, my supervisor- Abdulkerim Sadigov for their support and teaching me the most effectual strategies that helped me to complete my dissertation. My supervisor was regularly following my working and gave me sufficient level of sources.

In conclusion, I am grateful to my family for their encouragement, support and motivation from the first day of my research till today.

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Abstract

Small-scale business enterprises are essential for creation of employment in Azerbaijan. The implementation of comprehensive cash management practices is crucial to guarantee the profitability and durability of every thriving business enterprises. The most frequently practiced statement “Cash is king” could not be opposed because its strength is more prevailing in this research study. Moreover, the goal of this study was to clarify the existing cash management practices of small-scale business enterprises in Azerbaijan and find influence of cash management practices on their efficiency and preventing cash problems in these entities. Cash flow management is an important factor in accelerating the turnover of the company's capital. This is due to the reduction of the duration of the operational cycle, more economical use of own and reducing the need for borrowed funds. Consequently, the efficiency of the enterprise depends entirely on the organization of the cash management system. This system is created to ensure the implementation of short-term and strategic plans of the enterprise, maintaining solvency and financial stability, more rational use of its assets and sources of financing, as well as minimizing the costs of financing business activities.

The outcomes of our research may be beneficial to prospective, developing and reputable owners of each kinds of businesses because applicable, effectual, efficient and proficient cash management is a vital element of each profitable business enterprises. This thesis is focusing on the influence of in what way appropriate cash management exercises may have an effect on effectiveness of a small-scale business enterprises and resolving cash flow problems.

In conclusion, strong cash management is the main indicator of success of small-scale business enterprises. Poor cash management may hurt the business directly. The controlling of cash flow problems and finding solutions to them is essential. Small-scale business enterprises need to audit their accounts and procedures consistently with the help of crucial financial ratios.

Introduction

First of all, this chapter helps to initially present the background and the restrictions to the study and clarify the problem statement to this research. In terms of the economy, the roles and significance of small businesses, relationship between cash management and internal control in the business enterprises, even if it is small, should not be ignored. Every year it saves for business entities great amount of money and assists to keep all records appropriately and orderly. This is broadly recognized that it doesn't matter which size of the organization, every business enterprises will prosper if it is controlling, monitoring and managing its cash funds properly. Additionally, the cash inflow and outflow are of major significance in every small business since these areas are vulnerable to dishonesty, fraud, theft and other misstatements mostly. This occasion happens since the majority of the business entities' senior managers currently incline to ignore significance, strength and effectiveness of internal controlling. The objectives, goals, hypotheses, the given approach to study and its aids, additionally the methodology will be shown too.

1.1 Background to the study

Small business enterprises are crucial for creating job vacancies and opportunities to the population in Azerbaijan. In addition, cash management is a prevailing contemplation in identification of nature of small businesses. Small businesses frequently stop working before they have an opportunity to prosper as they cannot control cash flows and run out of cash due to poor cash management practices. According to the statistical analysis, it is obvious that the most fundamental reason of business bankruptcy is due to the shortage of planning and controlling. Then, the second principal reason together with inadequate planning is the shortage of effective cash management practices. With the increasing number of jobless people and underemployed, the government of Azerbaijan focus on the creation of viable and reasonable enlargement of small-scale businesses in Azerbaijan. Numerous small businesses collapse as a result of the lack of cash instead of the lack of

profits. According to the scientists, strong cash management practices are essential for the small-scale business since strong cash management practices can help in success, effectiveness, upcoming planning, durability and sustainability. This thesis is going to examine the influence of several cash management practices, their control and challenges of cash that are faced by small-scale businesses. We are going to explore primary causes why small-scale businesses cannot controlling their cash flows (inflow and outflow). The feasible solutions may be to offer cash management support to these small-scale businesses. cash management support will enrich cash management comprehension of small-scale business possessors with the intention of these small-scale businesses can be more effectual in directing and controlling their cash and decision making that will improve their productivity, effectiveness, sustainability and durability.

1.2 Problem Statement

Conducted statistical research found that in Azerbaijan many start-up businesses are failing because there are insufficient level of cash management practices and not enough skilled. Small-scale businesses cannot implement their duties and find it time-consuming to develop and improve the cash management practices, they also don't focus on the internal control and cash management. Moreover, these businesses cannot exactly figure out the problems and dilemmas in their operations related to the level of cash which is coming and going out for different kind of activities. The shortage of cash management practices, skills, tolls avoid small-scale business owners to sufficiently run their cash funds. Many business failures occur because company owners believe that it is unnecessary and unusual to improve cash management practices, developing them and appropriately controlling primary activities related to cash flow. Profitability, liquidity and sustainability the most essential issues for each small-scale businesses, so for achieving the survival of the business start-up businesses should adopt new strong cash management practices, frequently monitor and control their operations, put emphasis to the internal control system, identify what is the actual dilemma for

failure and try to find solutions to these dilemmas with the strong cash management strategies.

Consequently, the main goal of our research study is to explore which practices should be adopted by small-scale businesses and which one of them are not appropriate and tough for small-scale businesses possessors to implement. Furthermore, this thesis explores which cash management practices may prevent cash problems and the collapse of business, which skills, strategies and knowledge should be gained for the efficiently carrying out strong cash management practices, controls and planning.

1.3 Aim of the study

The principal objective of this research is identifying cash management, its essence, learning about relationship between internal control and cash management and analysing cash flow dilemmas in small-scale business enterprises. It includes also investigating of why cash problems happening. The key issue for every business is their managing cash funds. It can give both the best and the worst results for the company.

1.4 Limitations of the study

Our study research is restricted to the small-scale business enterprises in Azerbaijan. The required presence principle for our research study is definitely businesses with not more workers. Additionally, research study adopts effective cash management practices referred to resolve cash problems occurred in small business entities. In addition, it reviews the possessors, employers and appropriate delegates of every small business in the experiment. Subsequently, the correctness of data presented in questionnaire is restricted to the level of knowledge about cash management practices utilized in small business. As that study is quantitative, the perfect selection was to possess data tools like questionnaire. Our research study is limited to identifying if small-scale business directors, executives and representatives are effectively dealing with adopted cash management practices and small-scale business owners and executives possess required abilities, competences and experience to carry out chosen cash practices. Moreover, the

informations and sources are limited to cash practices adopted in small-scale business enterprises and the influence of cash practices that has on the productivity of small businesses as well. Hence, research study is restricted to exploring the impressions that implemented cash practices and strategies have on cash flow dilemmas and profitability of companies.

The expression of cash management in the heading relate with the cash management practices. The different kinds of cash management practices in our research study may be restricted to cash inflows and outflows, purchase management and small business fundings. Our resarch study cannot explore economic growth and further business- associated characteristics. Thus, the outcomes of research study may not be take a broad view to all kinds of small-scale businesses in Azerbaijan.

Research Methodology

2.1 Approach and Research tools

An explanatory report selected for carrying out cash management study to find out and realize cash management techniques of small-scale businesses. Qualitative Research method is principally investigative exploration. This method preferred to acquire perception of primary details, views, thoughts, and incentives. Random choosing sampling utilized for this research. The random sample in my research consists of 25 small-scale businesses in Azerbaijan.

Quantitative investigation technique selected to measure the difficulty levels by producing numerical facts and information, which can be changed to the practical statistics. It enables to measure positions, approaches, judgements, manners, attitudes and other outlined values for producing outcomes from bigger experimented population. Additionally, quantitative study utilizes calculable informations for communicating findings in research. In my research I have used both methods for writing this dissertation. Survey study was carried out and questionnaire tool preferred to evaluate cash management techniques in small-scale enterprises. The questionnaire prepared both from open and close-ended kinds of questions. Respondents of research consisted of possessors or managers of small

enterprises. There was prepaid packet for sending respondents to get back these questionnaires. Whole companies in sample were informed about whole facts and personalities will stay private, confidential, and not utilized for other procedures. In our research no names indicated.

2.2 Data collections

Experimental findings of research study shown beneath. Moreover, these findings reveal the kinds of cash management methods and problems encountered by small-scale enterprises. In the following table we can see the results about cash management.

The awareness of respondents about cash management methods

	Number of response	%
Yes	20	80
No	5	20
Total	25	100

The implemented research found that 20% of random sample indicated that they do not consider cash management methods essential and not possessing any understanding of cash management. However, 20 out of 25 small businesses have fundamental awareness and knowledge about cash management systems. Subsequent table will show the examination of answers about selling on credit. Managing with debtors payments.

	Yes	No	Neutral	Total
Company gave discounts and other concessions if clients pay back within agreed time period	5 20%	16 64%	4 16%	25 100%
Imposing interest fees for overdue accounts	12 48%	7 28%	6 24%	25 100%
Informed about implications of bad debt amount	8 32%	14 56%	3 12%	25 100%

According to this table, we can see the result of questions and their views. Approximately 56% of businesses not informed about the adverse effects of uncollected debtor payments. However, 32% of small businesses put emphasis to the outcomes of bad debt amounts.

Let us to look at the responses about inventory management questions.

	yes	No	neutral	total
Holding regular inventory take	8 32%	11 44%	6 24%	25 100%
In some cases, finishing inventory of some products	15 60%	4 16%	6 24%	25 100%
Possessing unsold inventories	19 76%	3 12%	3 12%	25 100%

76% of businesses informed that they own the amount of inventories which is not sold, only 12% of small businesses said that they do not have non-sold goods. Additionally, 12% of them remained neutral about this question.

Questions related to monitoring the purchases.

	yes	No	neutral	total
Having always sufficient level of budget to the payments of goods	6 24%	15 60%	4 16%	25 100%
Company was charged additional interest fees due to later payments	20 80%	3 12%	2 8%	25 100%
Company got reduction in prices if they pay their amounts in the regular base	9 36%	12 48%	4 16%	25 100%

From illustrated table it is clear that just 24% of small businesses have enough level of their funding to acquire desired products and items. Sixty percent of these entities suffer from paying for required products for utilizing them. Furthermore, only twelve percent of these entities do not get extra charge payments because they disburse payments later. Additionally, 36% of respondents got concession since they regularly repaid the expenditures of goods without being late. These answers

gave us understanding of the conditions of small companies during handling with cash management methods.

Theory

3.1 Nature of small-scale business enterprises

Description of small-scale businesses is very essential case. According to many economists of the modern economy, large business leads, and small-scale business plays a secondary role in the long-term.

However, currently the small-scale business sector not just does not disappear, but also dynamically grows. It implements socially crucial economic and social functions that a large-scale business sector cannot implement. Continuing from this, other modern economists think that small-scale business is a directing and prominent sector of our modern economy.

The dilemmas of employment and unemployment, incomes and revenues of the population, the operating of a competitive and driven mechanism and economic growth are related to small-scale business enterprises. Small business contradicts monopolization and domination of the economy, is in favour of the resolving of social and economic disagreements. In agreement, it continually needs assistance, including at the expense of the state budget, which cannot be attributed to their leading functions in the modern economy. Additionally, practically principal topic is discussed which business and which features should be assigned to small-scale and, correspondingly, to whom to give support.

As a result, the matter of the characteristics and nature of small-scale business is actual both in theory and practically.

3.2 Essence of accounting for small business

First and foremost, accounting is a central part of profitably managing a small-scale business. Moreover, a huge false impression is that small-scale business enterprises do not require to have basic skills and comprehension of accounting.

Nevertheless, if small-scale business enterprises need to achieve its whole potential, the fundamental accounting principles have to be observed. Additionally, accounting helps small-scale businesses with an instrument to practise to enter business operations, activities and have accounting, financial control, directing over the small-scale business entities.

Accounting creates information, data about the work of small-scale businesses. It obtains all of the adjustments happening in the production, supply and marketing activities, and gives the essential information about the movement of small-scale enterprise funds. Accounting is not a detached recorder of facts and events. Moreover, the collected data are classified and generalized. All adjustments happening in economic activities are recorded in accounting with the aim of dynamically influencing the improvement of the work of a small-scale enterprise through the adoption of accurate management strategies.

Hence, accounting at small-scale businesses is a central part of the production management system. Initially, it is crucial for information support of the management system within all its levels. On the whole, the volume of economic information in small-scale business accounting records is over 75%. This information establishes the foundation of information support for the small-scale business management system.

Furthermore, the worth of accounting in the management system is not bordered with the function of information support. Accounting constitute another information role- confirming control over the security of property of the company. The control function of accounting plays vital role in the conditions when economic approaches of impact on the quality of work of small businesses are introduced anywhere. It means that accounting cannot just signal deficiencies in the action of a small enterprise, inefficient use of resources, but through the appropriate arrangement of the accounting service is designed to prevent these adverse phenomena.

In addition, fundamental accounting practices may allow the small-scale business to precisely indicate the businesses financial results (such as profits, revenues and

expenses) and determine where the cash going and coming in at all times what is the most happened dilemmas to these entities. Our research is concentrated on characteristics of commonly used cash management practices by small business in the sphere of accounting principles. Furthermore, our study determined small-scale businesses' capability to direct cash flows consisted of outflows and inflows in the small-scale business enterprises along with in which way these businesses cope with their borrowers, creditors, transactions and financial operations. It is essential to find the implications of adopted strategies and accounting records for the profitability and survival if small-scale business enterprises.

3.3 Definition of cash management

From the beginning of dissertation we are mentioning the term “Cash management” frequently. This term is related to the managing and directing an organisation's cash funds to guarantee satisfactory level of cash to continue the companies' daily procedures, support lasting development and is responsible for unpredicted expenditures whilst not excessively sacrificing earnings due to surplus of cash funds. As stated by many scientists, cash management may be described in the function of monitoring and directing the cash flows which consist of cash inflows as well as cash outflows in enterprises. Furthermore, cash management correspondingly requires capability to create cash balances which are maintained in this business enterprise continuously. Hence, effective cash management involves adopting all necessary protective measures to confirm that sufficient levels of cash are kept in enterprise with the intention of the operating obligations might be carried out. As said by economists, the direction and managing cash flows in order to maximize cash maintained in business enterprises, which are, not spent the cash for purchasing inventories and other different kind of assets (for instance fixed part of them). Moreover, business enterprises have to evade from the turning into insolvent one with the help of effectual cash management strategies. Finally, cash management is related with the gathering, coping with payments and efficiently managing of cash in the company.

From the mentioned descriptions, it is obvious that cash management try to maximize the level of cash which is coming to the entity (we call it cash inflow), minimize cash outflows, efficiently spend funds and monitoring, directing cash flows. As a result, the business enterprises should possess appropriate level of cash to prevent liquidation.

3.4 Cash management methods

The primary objective of cash management is investing money for gaining profit and at the same time having acceptable level of liquidity: there have to be enough, but not too much, supply of money. With the minimum level of requirements, business enterprises have to possess cash greater than balances, which is maintained by the banks to pay off for its services, or other cash balances accumulated from preventive measures like emergency cases. As well as, cash for dealing with cash transactions. Strong business entity should also hold enough level of cash for meeting every day requirements. Numerous elements have influence on choices about how much money must be accessible, with regards to liquid kinds of assets in a business entity, business-related risks, measurements of debt commitments, their maturity time, the competence of obtaining short-term loans. Additionally, in the positive circumstances, together with rate of return, financial situations and unanticipated difficulties, for instance bankruptcy of costumers and buyers. The principal instrument for cash management is preparation of cash flow plan and budget. In addition, there are also additional methods for managing cash funds effectively and efficiently. Hence, it is essential gaining speeding up inflow of money cash funds and deferral of cash payments. For improving the flow of cash funds, it is essential to evaluate the explanations and take remedial arrangements to reduce delays in acceptance of money funds to the bank accounts. It is crucial to create the source of the cash receipts, in which way they are moving and how they transferred from the secondary accounts to the business enterprises' major accounts, and figuring out the bank accounting strategy of controlling over the receipt of cash funds and

timespan between obtaining the check and depositing it. Consequently, we are going to concentrate on following methods.

Particular qualities depict cash like the kind, part of current assets:

- Regular - cash exercised for covering and disbursing current financial debts, thus there can always be period gap among incoming and outgoing volume of cash flows. Consequently, small companies obliged to accrue persistently free cash amount on t current bank balance.
- Protective procedures - actions of small enterprise not stringently controlled, thus, cash reserves desired for paying unpredicted costs. Due to mentioned objectives, it is suitable creating coverage reserve of cash funds.
- Uncertain – cash funds wanted for tentative motives, because here is continually minor likelihood for unforeseen chance for valuable investments.

Nevertheless, money reserves is non-profit making asset, so chief purpose of strategy of handling them is holding them at the lowest basic level appropriate to fulfill successful financial and moneymaking accomplishments of organization, containing:

Opportune imbursement of bills of sellers, letting to benefit the concessions offered by suppliers from the price of items.

Conserving lasting solvency.

Compensation of unanticipated outgoings happening during sequence of business-related actions and performances. Since it illustrated above, when there is great cash money reserve at the payment balance, business organization handles losses of missing chances. By means of lowest supply of cash, costs of replacement of stocks and conservation expenditures rise. Hence, finding solution to dilemma of maximization of amount of money resources on the reimbursement account is the first step. It is suitable to considering 2 equally special conditions: sustaining existing creditworthiness and gaining extra profits or revenues from investing unrestricted cash funds.

There are numerous simple approaches for estimating optimal level of cash balance:

Effective model of Baumol-Tobin

The widespread model of liquidity and cash funds management is Baumol-Tobin model, created by the assumptions that attained by Baumol and Tobin separately from one another in middle -1950s. Additionally, this pattern undertakes that commercial companies preserves satisfactory level of liquid assets and enhances its inventories.

Consistent with this approach, commercial enterprise begins operating, maintaining the most suitable level of liquidness for it. Additional, when the performance advances, the size of liquidity degraded. Total of the received money of small companies spend for short-term securities. When liquidity level touches optimal size, it turns to be equal to specific agreed level of safety; organization vends portion of bought short-time securities, thus replaces cash reserves to their real value.

While utilizing this approach we need to know some restrictions:

- in current times, organization's demand for money is unchanging, forecasted;
- total gained finances from sale of commodities spend for acquiring short-term securities. When volume of cash drops to insufficiently minor level, companies may choose to offer some parts of acquired securities.
- the receptions and disbursements of organizations recognized lasting, planned, that enables us to compute net cash flow.
- quantity of fees linked with transition of safeties and additional financial appliances into cash funds, along with deficits from missing returns by the means of interest for predicted investing of accessible funds, may be calculated.

According to discussed model we can compute optimal cash balance with the help of this formula:

when C is the optimal amount of money:

$$C = \sqrt{2TF/r}$$

F - fixed expenditures for acquisition and sale of securities or paying the loan accepted;

T - the annual need for cash funds required covering current operations;
r - interest rate of short-term market securities.

Miller-Orr approach

This approach identifies higher constraint and profit position to cash balances. The limitations of Baumol approach mentioned above cause to creation of Miller-Orr model, which is advanced type of EOQ. According to miller standard, cash funds accidentally alter among maximum and minimum borders. If cash account touch to the highest limit, companies possess excess level of cash and these businesses have to acquire saleable securities for being in ideal point. However, as soon as cash level reach to zero, companies need to trade their securities for gaining enough cash amount.

As soon as dealing with liquidity matters, companies directors need continue operations with the next judgment: always cash balance should be in sufficient optimum level.

While utilizing that model, company managers and executives need to keep in mind supposition that expenses or costs to obtain and vend securities are stable and same.

For finding the return point, required subsequent formula:

$$Z = \sqrt{\frac{3T\delta^2}{4i}}$$

where Z is optimal targeted of cash funds.

δ^2 - variance of the day-to-day cash flow balance.

T- contract expenses of conversion cash and securities.

i- interest percentage.

The upper frontier of cash account is identified by next formula:

$$H = 3Z$$

3 times of optimal targeted cash balance

3.4.1 Inventory management controlling and monitoring

Many economists stressed out that appropriate inventory controlling methods may increase profits of the small-scale business enterprises. At the gradual changing

modern economy, running business procedures, concentrating on why mainstream of business entities' cash occupied may represent distinction among more required profits and undesirable level of losses. Additionally, it is straightforward converting cash funds into inventory, while converting inventories to the cash means is difficult. According to scientist, if the inventory is selling and the level of inventory maintained in the stock is changed, the business's profits are fluctuated and altering. Furthermore, gradual shifting inventory cannot enlarge higher than 4-6 percentage of entirely inventory level kept in organisation. Moreover, these are subsequent approaches for selling gradually sold or shifting inventories:

Concentrate on slow shifting inventories. Numerous financial managers are not inclined to concentrate on gradual shifting inventory level. Nevertheless, owners of enterprises should put emphasis to the essence of inventory. Relatively pay attention to these objects to increase the amount of sales. They may choose to demonstrate inventories in the exhibitions and demonstrations.

Monitoring usage of inventory methods: It is important to use FIFO inventory valuation method for selling items by making obsolete and old inventories sold initially and permitting new items maintained at stock before old ones sold. FIFO method gives right results than other methods.

Third strategy is providing concessions: Strong assessment have to be applied during appointing discount rates. According to the enterprise possessors' standpoint, although reduced prices are fewer than cost of inventories, it can bring extra gaining related to the organisation's cash movements instead of keeping objects on stand.

Pack this item with astonishing other items: Make an effort to bundle gradual purchased inventory by other things those needed by customers. Hence, that approach may inspire clients to buy combined group for needed value. The significance of using stock monitoring systems discussed in every business. As stated by economists, the most significant step is recording inventories, which is available and kept in business and making note of items, which the consumers would like to buy and require. It is false to sell items which are desirable by

owners of business. In its place, possessor of the business have to identify which items marketplace desire, need and which inventories will purchased. Additionally, holding inventories at stock for organisations shows which suppliers are rapidly and what kind of objects left at stands for long-lasting intervals.

While goods are desirable, any business manager requires confirming that ledges are full with items to meet the needs of clients. Nevertheless, if goods is not attractive to customers, business possessors should choose to vend items from stock. It is obvious that deteriorating in controlling inventories may cause to devastating results for several small-scale businesses, since 50 percent of each start-up businesses last exceeding 3.5 years. Consequently, inventory controlling and supervision is vital component of cash management system and gradual selling inventory can be exceedingly costly.

3.4.2 Dealing with Debtors

Recently established, start-up, flourishing small businesses are very vulnerable to cash complications and cash flow dilemmas. According to several economists, every organisation pays cash or money with the intention of gaining and increasing cash funds. The timespan among them could be lengthy and may cause too much costs to the small-scale business enterprises. Furthermore, rapidly obtaining cash funds payable by borrowers may be influential element for any business enterprise to surviving or ending its operations. Borrowers may derived the lay-by structures and credit techniques. Moreover, lay-by and credit system are distinct and we can see it from the following structure, first let us looking through lay-by system:

- 1) The stage of entering into contract or transaction
- 2) Paying deposit
- 3) Commodities and goods maintained at factory
- 4) Consumers pay orderly payments
- 5) Instalments are repaid
- 6) Consumers account completely repaid
- 7) The ownership of goods passed to consumers

An idea of products sitting within weeks in the stock house of company, clients paying regular instalments for those goods, not bringing products to house till products are completely paid back, is actually produced progress in the latest years. According to scientist, from the time when credit cards offered roughly in 1975s, clients did not buy by means of lay-by techniques. Nevertheless, in the past few years, that technique returned entirely with the purpose of no additional funding charges for transaction applied. As interest payments enlarged by bank institutions, various clients constrained from buying by credit system and choosing lay-by system. Different authors and economists suggested that customers prefer to choose this technique because interest rates did not exist and their credit accounts not influenced by delayed and postponed payments. A lot of clients have not sufficient level of cash money for paying in total consumption price, hence they would rather obtain products with using lay-by method. Moreover, lay-by system appeals to many consumers, particularly throughout celebratory periods at what time the amount of sales are growing. Now let us to turn credit sale technique.

- 1) The step of entering into transaction
- 2) Buyer took ownership of items
- 3) Buyers disburse instalments and interest charges
- 4) Buyers disburse instalments and interest charges again
- 5) The account of consumers entirely repaid

Taking into account the credit sale method, once transaction or contract happens, consumer receive ownership of sold items and commodities. Subsequently, buyers pays instalments repeatedly in the payable amount. In addition, these instalments prepared by the borrowers' gathering time adjusted by organisation. The instalments are interest payments applied to acquisition price. Buyers carries on disbursing these instalments till payment account will be paid totally.

Let us look at what is bad debt. Bad debt, in most cases famous like doubtful or suspicious debt. Bad debts are written off accounts which is any business may encounter. It happens when any business make credit sales and clients, which are debtors, cannot pay back amounts, which are payable and due. Thus, the effect of

bad debts will reduce the level of sales. For that reason, operating profits will be reduced too. So, bad debt accounts should be given up for lost or written off from related accounts.

Bad debt is a debt that is unlikely to be repaid. In particular, it is crucial for banks and other financial institutions that make their profits by borrowing money, but a maximum or raising the level of bad debt can be an indicator of dilemmas in every organizations. When the debt is referred as a bad, they are applied as a cost for profit and loss account. Since some level of bad debt is assumed, it is common practice for companies to make collateral for the amount of debt that is expected to be bad.

3.4.3 Cash budget and plan

For effectively directing and controlling cash flows in the company, the most used instrument is preparing cash budget. Firstly, this cash budget identifies the amount of cash which is going to the business entity and which is leaving or going out from company. For small-scale business enterprises, it is essential to prepare cash budget or cash flow plan. Moreover, cash budget used to predict and resolve dilemmas related to cash flow if here is not much cash accessible and showing here is extra cash inflows existing for putting this cash for investments.

Then, thanks to preparing cash budget, company possessors may be aware of cash flow dilemmas, difficulties arising from the cash deficiencies and informing them about chances resulted from the excess amount of cash. That is why owners have to appreciate the essence of creating cash budget and cash flow planning. As stated by many researchers, cash budget or cash plan identified as a budget, which illustrates cash inflows and outflows within the business entities. Many business enterprises create cash budget plan as an essential instrument for making sure small business enterprises that they have sufficient level of cash to meet their operational targets. It is significant calculate the amount of cash obtained or received from operations and assessment ,predictions of cash inflows, anticipation of cash payments and cash outflows in small-scale business entities because when they deduct cash outflows from inflows it will give them precise result of

accessible amount of cash that business entities possess. In addition, cash budget is significant tool for identifying how to use expected incomes, revenues and arranging for planned payments. Consequently, it may warn us from the occurred cash surpluses and allow business owners to find cash deficiencies and taking action for gaining its necessary operational aims, goals related to productivity and maximizing profits.

In consequence, the planning, checking and monitoring of cash identified as budget of cash flow. The objective of creating a cash flow budget is to plan, direct, monitor the performance of planned values and examine the data on the movement of money and their equivalents over a time interval. Furthermore, the cash flow budget, as an effective way for planning, directing and controlling cash, gives the administration and management of the small business enterprise the subsequent concepts:

- with occurring how much expenses of which activities the business enterprise obtains money funds and whether or not this enterprise may acquire secure amount of money from current accomplishments;
- In which rate the business enterprise depends on borrowed funds of financing
- In what time cash gaps existing or owing to what they could be covered
- When and in which conditions loans and payments received
- Whether or not business enterprises obtain sufficient funds for future growth
- Which one of activities of business entity gives opportunity served as criteria for evaluation of the performance of financial managers and their strategies?
- Explanations for the disagreements in the financial results (records about profit and loss account) and variations for cash flows (recorded in the cash flow statement).

The budget for movement of cash funds shaped in the framework of management accounting and controlled merely by the internal regulatory documentation of the business enterprise, so having restricted number of users, mainly financial managers of company and enterprise managers.

As a result, let us to draw conclusion: cash flow is one of the most significant characteristics of the operational cycle of any business enterprises, as well as defining the essence of cash management function of business enterprises.

5.3 The dissimilarity between cash and cash flow

In this topic, we will discuss distinction among the characteristics of cash funds and cash flow. Firstly, cash identified as the physical fund, which owned by the business entity and maintained in bank or other financial institutions or remained in the business enterprises. According to the economic principles, cash account shows how much cash is available in the business and this entity may utilize in this amount of cash where it wants and from the company's point of view, it is the first liquid asset of enterprises. Cash comprised of other currencies of states and other cash amounts in the companies' existing accounts available. Moreover, companies' accounts receivable amounts, businesses shares not referred to the definition of cash. Fixed assets are not considering cash. Thus, mentioned all assets can transferred into cash funds but companies are not able to pay their obligations, payments, salaries of workers and rental fees. It is extremely important for business enterprises informed that growth of profits not indicates rise in cash accessible. In addition, business enterprises keep cash that is physical in nature for meeting their day-to-day, operational expenditures and disbursements for managing business. However, the essence of profits and earnings for the business owners is required level of turnover, which gained after a while. Companies require profits and earnings to gain the business entity additional positive cash inflows. Any company do not use its profits for meeting needs and paying expenditures, even though they may meet their obligations from the cash balances. Now, let us to explain the essence of cash flows. Cash flows constitutes the cash inflows and cash outflows together for the business enterprises. To examine the whole amounts of money, which is, going into the entity and amount of money leaving the business enterprise are very timely difficult process of directing effectively any business. Cash outflows occur if the business entity decides to make payments for their expenditures, rental fees, instalments, the salaries of the

number of workers and other debt obligations timely. However, cash inflows happen while clients, consumers disburse their own debts, borrowings and the business entity obtain cash funds from other sources or debt holders. From above, it is clear that receiving and payments through cash funds is cash flow process. Taking into account capital planning, the sale, utilizing, and acquisition of capital assets result to the cash flows. When the amount of cash inflow exceeding the sum of cash outflows it called that business enterprise possess positive cash flows. That is why the amount of positive cash flow shows that effective controls for checking the level of cash flows applied not strong appropriate cash management methods. However, when cash outflows are more than inflows, in this case we call it negative cash flows. The reason for it can be spoiled, obsolete inventories, failing to gather payments and instalments from debt holders, borrowers. During possessing negative cash flows business entity should borrow money, get extra loans if not critical financial dilemmas may happen. Moreover, the sum of money company can receive from consumers, borrowers and clients and the equal quantity of cash funds which company can waste in this time interval. Secondly, monitoring cash flow is the most crucial instruments in small-scale business. Any transactions or contracts that may result to the creation of adverse outcomes to the small-scale business entities have to be avoided such as the amount of receivables susceptible to be paid , too much interest charges and debt obligations adversely influence cash accounts of business enterprises.

Furthermore, the principal goal of any business is directing and checking cash inflows and outflows with the intention of possessing enough cash for covering unforeseen expenditures in business operations.

Many authors highlighted that if the company has not cash and spent all its cash this company is insolvent. The main indicator of viability and productivity is not cash flow because in the same time business may possess cash dilemmas.

5.4 Elements of cash flow

The analysis of cash flow and cash management consist of the estimation of distribution time of cash funds, the examination of cash flows, its prediction, defining optimum amount of cash, planning of cash.

Moreover, key intentions of analysis of cash flows are effective, operational control over the protection of cash and cash securities in the cashier's office, controlling of the usage of cash funds accurately for the projected objective.

Cash flow statement is a financial statement, which displays the receipts, expenses, expenditures and net changes in cash funds throughout current financial activity, such as investment and financial activities for specific periods. Furthermore, variations shown in a way that they permit to form connection between the cash balance accounts for the beginning and end of the financial reporting period. The reasoning of examining, analysis of cash flows is reasonably clear- need for distributing as much as feasible whole functions influencing the movement of cash funds. Assessment of cash flow operations by direct, indirect methods is worthy.

- Firstly, looking at the direct method gives us information about it based on computation of the cash inflows (earnings from the sales of items, goods and services, loans collected) and cash outflows (expenditures, payments of trader bills, refund of payable loans). Additionally, basis component is revenue amount.

- Secondly, indirect technique related to the classification, bookkeeping of cash flow contacts and the subsequent change of the amount of net profit. The first component of this method is profit. This direct way of computing focused on the consideration of the outcomes of operations on cash balances for the given time.

These operations are classified into following activities:

- Currently operating activity – it includes acceptance of earnings from sales, early payments, disbursement of sellers' accounts, receiving of short-range debts and loans, paying of salaries, wages, settlements with the cash budget, interest charges paid or received on borrowings.

- Investment activity - transfer of cash funds connected with the purchase and sale of fixed, intangible assets with the intention of making investments for future.

·Financial activities – moving of cash funds linked with gaining long-short term loans, long-short term financial investments, repayment of loans, payments of share dividends.

Monitoring cash resources, implementing right, suitable cash management strategy is very significant for any business especially for small-scale for identifying whether or not it will continue operate effectively and sustainable or not. Now we need to explain the process of cash inflows and outflows moving in the small-scale businesses. Hence, cash flow may arise only if the distinction can be separated among incomes, revenues and payments in the small business enterprise. Cash inflows are:

Money or cash obtained from the borrowings

Selling business's fixed assets

Shareholders' capital or business possessors' capital

Sales incurred with cash payments

Accumulating the amounts from accounts receivable

Cash outflows:

Occurring payments for getting inventories

Payments for short and long-term debts

Payments for salaries of employees

Paying operating expenditures

Disbursements for accounts payables

While sale contract takes place, obtained earnings documented and the level of profits enlarges. It does not influence to the amount of cash flow for this transaction if it is not cash based. Thus, when cash is collected from this trade and clients gives the payable amount of money, in this case cash inflows will rise. For small-scale entity regulators formulating and leading budget, estimating the cash that will going in and flowing out the enterprise may cause to achieving targets. To avoid adverse cash flows following actions should be taken in the small business by possessors of organisation.

Be informed about the standpoint position of cash funds. An initial stage is determining balance of cash accounts. Formulating income statement does not illustrate the right place of cash flows. The income statement consists of only values for specific time such as sales revenue, gross profit, EBIT, operating income, expenditures and net income of business. For observing clearly cash inflows and outflows, the best tool is statement of cash flow.

Organise the strategy for succeeding. It is requirement arranging and forecasting positions in the changeable modern time. By the shortage of suitable planning, actions businesses may not prevent disaster. With the help of strong right strategy, companies may get success and be profitable with the sufficient amount of cash.

Reviewing cash budget, inflows, and costs. Checking, assessing the values and funds is the right instrument for resolving happened challenges in cash.

3.7 Significance of cash management techniques

Firstly, I would like to stress out that statement of cash flow is of remarkable informative value. Thus, that information exercised by numerous financial managers, shareholders and businesspersons help them to resolve matters associated with the growth of assets, payments of debt obligations and latest investments. Likewise, cash management is a financial device by which it is feasible to reach high finishing outcome of financial and economic actions of the business enterprise, that is, it is feasible to obtain additional profit. This is the cause for the necessity of the challenge of effective management of cash flows as significant device of financial management. The significance of cash management methods in small-scale business enterprises contains subsequent pros:

- It facilitates arrangement in order to diminishing cash payments, expanding cash acceptance for confirming that entity is liquid in nature;
- Supervision and management of cash play essential role for attaining liquidity and accurate monitoring in the small-scale businesses.
- Appropriate directed cash funds are crucial because upcoming cash resources could not be anticipated, for that reason, planning have to be implemented.

- Due to suitable regulations of cash flows, techniques may be applied for providing innovations for cash gaining and cash expenses within business entity.

Strong cash management is vital since excessive level of cash is harmful, because it repays the amount of interest charges in cash, which is undesirable for business. However, less amount of cash is costly too, for the reason that companies losing reductions, chances due to the shortage of cash funds and soundlessly disposing of business with not rapidly trading inventories by reason of scarcity of available cash funds. In addition, cash management techniques are crucial assignment to the financial managers. The first reason why small-scale business entities turn to insolvent or bankrupt is that it is not able to repay its debt payments and fees repeatedly. For that reason business, entities have to effectively direct, control their cash funds carefully. Right cash management methods avoids insolvency, in that way enlarging productivity, effectiveness, prosperity and durability of the companies. Correct, competent cash management strategies are very important to the start-up, new created and developing small-scale business enterprises. Adverse cash flows may arise if the small-scale business entities handles to the numerous clients who are challenging for following and if they vends items excessively wanted than their competitors.

4.1 The connection between controlling & cash management

The essence of controlling process is making sure executives, users and employees about business entities' operations are fulfilling correctly in order to gain targeted operational missions. Furthermore, administration may launch and preserve intense controlling atmosphere because of regulations that are plans, techniques and strategies ready for confirming management targets implemented accurately.

Certification, Records Agreement, Confirmation and Settlement. Creditors, investors, shareholders need to monitor the performance of organisation plenty of documents and figures. Several factors for example worker's additional bonuses, may cause in which way workforce assess and register commercial informations. That is why the value of assets, earnings tend to exaggerated more than devalued. Sequentially, the amount of expenditures and liabilities have a tendency for being

devalued than being overstated. Moreover, the regulation undertakings of agreements, certifications, records and matching help for ascertaining presence of assets, capital accounts, along with described earnings. Controlling procedures assist for confirming comprehensiveness of shown obligations, liabilities and expenditures. For small business supervision, those actions make certain cash is spending or going out in order to make rational consumptions and using appropriate services.

Central components of the controlling which helps to correctly and timely report financial statements is orderly ledger accounts, manual accounting procedures, principles for entries, classification of transactions, explanation of registering accounts which act in accordance with exterior experts. The potential, responsible financial manager have to control effectively and regularly contrast four main financial statements with the amounts in the trial balances, checks and invoices. Each distinct percentage occurred from comparing statements have to be monitored and identified.

Firstly, inside monitoring system is strategies and practices advanced for protecting company assets, confirming agreement with financial guidelines of business and the consistency of informations shown in the company accounts.

Secondly, strict system of controlling the movement of cash and companies' liquid assets enlarges probability that predictable cash flows and cash securities are truthful and dependable data for the financial users. Security of cash and money resources is important concern for many business enterprises. Money is effortless for covering and moving, they are easily convertible. Hence, internal regulations over cash flows must accomplish the next functions:

- 1) Individual storage and separate accounting of cash funds
- 2) Bookkeeping of all contracts and dealings made for cash flow
- 3) Storing of just the required amount in the cash register;
- 4) Intervallic checks of residual values in the cash schedule
- 5) Physical monitoring of cash and money resources.
- 6) Checks for receipts.

Cash earnings possess plenty of foundations, a number of monitoring transactions in the all business companies. Thus, the resulting ways exercised frequently:

- 1) Division of obligations for disbursement of cash funds, registers of contacts directed for money and understanding of cash accounts. Hence, mentioned allocation diminishes probability of stealing and disguise by counterfeit accesses.
- 2) Allocating to every worker specific duty for bookkeeping and recordkeeping of cash reserves, for confirming persistent and unceasing flow of cash from the starting of receipt to bank balances. This supervising needs direct calculating, instant documenting and appropriate deposit of all gathered cash funds.
- 3) Encouraging the unceasing observing of implementation of cash running affairs and taking notes. It comprises day-to-day and unexpected calculations of cash, inside auditing and regular registers amounts on cash collected, expenses and cash balances.

Various organizations give money to lots of various receivers. While cash management approach advanced separately for all businesses, following instructions related to most of businesses:

- allotment of tasks for registering of cash outgoings, delivering and contracting cash orders, transmitting orders and all records.

- recordkeeping of entirely budgetary costs beforehand with totaled spending checks. When company exercise cash accounts, it requires supervising the agreement for usage.

Practice of bank or other financial associations' balances is very crucial tactic for examining cash resources and funds. In addition, bank accounts hold some benefits:

- Cash funds tangibly defended at the building of bank institutions

- Individual current accounts of cash funds operated by bank institution

- Threat for cash management of theft diminished thanks to more safety

- Clients may send disbursements straight to supplier's bank account with non-cash manner. Financial organizations deliver cash movement assistances, for instance:

- 1) Exchange of cash securities and cash funds from other currencies

- 2) Transmission or sending of cash funds to other states
- 3) Disbursement of interest charge on savings accounts

4.2 Cash management problems faced by small-scale business enterprises

The vast mainstream of small-scale business holders are assertive since they can oversee cash streams, whereas few of small-scale business holders are aware of the fundamental principles of flows of cash. Approximately quarter of business possessors interrogated, confess they suffer from difficulties about cash. Furthermore, irregular and inadequate upholding of cash flows may damage moneymaking, productive businesses. Perception and coaching of major accounting approaches may decrease tension and cause financial managers succeed. All business entities have expenditures and earnings or revenues. Thus, mission of keeping cash funds is to make a balance between profits and outflows. When the amount of cash outflow is bigger than companies' inflows, it may trigger cash gap. Cash gaps for companies result in dangerous operating dilemmas for organizations.

Here are cash management predicaments encountered by small-scale businesses.

4.2.1 Problems faced considering payments

Gathering the amounts of debt considered extremely demanding issues of small-scale organizations. According to my investigation, 41 percent of these businesses not succeed in showing scheduling of receivable amounts.

Fifty nine percent of interviewed small businesses revealed they experience and maintain own debt collection attempts at home since they fail to offer employing subcontracted gatherers. Additionally, 9 out of 25 small organizations must phone or ring borrowers constantly to collect payments of borrowing. Twenty eight percent of those disrupted institutions executed late disbursement charges. Besides, 35% of small businesses specified they prefer not lending and trading to unpaid borrowers, while waiting for their debts will be paid back entirely.

The largest part of small-scale organizations face challenges during meeting their expenditures since these organizations are coping with borrowers who are not disburse the owed amounts. Small companies take more than 3 months expecting

for recompenses from borrowers. Some businesses suggest reductions for beforehand disbursements however this motivation was unsuccessful tool since borrowers fail to utilize that chance.

In Seventy two percent of small-scale organizations, the case is meeting with very gradually payments according my research. Twenty-six percentage of companies cancel the amount of bad debts because borrowers fail to pay off credits. Merely twenty-nine percent of searched companies achieved to acquire bank finance or overdraft to hide cash hole. Other remaining companies choose to utilize private funding for covering shortage of cash payable by nonpayers.

Origins of poor cash managing are :rise in the amount of remained inventory at storage, inadequate checking credit transactions, growth in the time interval of gathering debtors' imbursements and expansion for bad debt volume.

Let us to observe where the problem is occurring.

- 1) Acquisition of inventory

- 2) Selling inventories

Problem happens in this passage.

- 3) Receiving payments

- 4) Paying charges and disbursements to the sellers, other expenditures

From this example, we detect that principal challenge met by company is the long-lasting borrowers' repayment times, that is the period among vending of inventories and moment when cash is obtained from this deal.

The key drawback of lay-by method is not finance expenses, interest fees, penalties and any other additional charges. However, cash funds sluggishly coming to the small organizations, in most cases within 30 days after sale deal.

Furthermore, second setback about this techniques met by operating businesses is those debtor-holders sometimes do not prefer repaying back their debt since they are not obliged to give interest fees or extra amounts for later payment time. For that, reason inflows of cash funds to the business units decreased. One of remaining difficulties is the company even now is in charge of products until debt will be repaid back, so commodity departs from the stock. The sale may be risky

whenever the item turn into outdated and spoiled due to any reason before full payment.

In addition, that problem lead to the volume of unpaid debt growths and inflows of cash to diminish. Hence, the deficiency of funding is the result from mentioned process. Furthermore, encountering with enlarged amount of debts turn out to be essential, struggling giving salaries to workers and supplementary expenditures play the role of liability. The deferral of gathering debtors disbursements has influence on the cash reserves and funds within the company.

The impact of bad debts

Primarily, the amount of debts, which was not possible to gather or collect called bad debts and it, is insignificant for creditors. It happens when whole efforts to accumulate the volume of debts or loans are ineffective. Additionally, bad debt affects the operations and activities of company, its ability to pay all occurred expenses and reduces the cash funds of entity. Thus, bad debt often occur due to the bankruptcy or insolvency of debtors. In Azerbaijan small-scale enterprises are progressively, prefer to write off debts.

The quantity of bad debts have influence on the performance of entities with 2 means.

-the business unit cannot to pay its expenditures , cost of goods, services and other extra costs due to the shortage of reserves resulted from bad debts in the company.

-secondly, debt-holders who is clients and consumers of business unit, are not disbursing their unpaid or unresolved loans. As a result, bad debts have adverse and undesirable implications for them.

Many businesses emphasis those bad debts frighten functioning and operating existence. Thanks to bad debt amount, business lose its effective profitability and it reduced revenues and returns. Moreover, it is time-consuming to improve activities and earnings.

- 1) Company offers products to clients on credits.
- 2) Sum of payables by debt-holders enhanced.
- 3) As a result, the quantity of sales enlarged and profitability rose too.

- 4) Clients do not pay their loans , thus reduce the inflows to the business unit
- 5) Happening of bad debts, make expenditures to rise
- 6) Due to enlarged expenditures , profitability decreases

4.2.2 Deficiency of cash budgeting and specialised workforce

Prediction the amount of expenditures may be especially difficult and tough. Particular part of payments, for instance worker's remunerations, supplier fees, cash for daily operations, are standard and effortlessly accounted. Moreover, for expanding small-scale companies, one of them could not arrange several factors or indicators straightforwardly. Some variables may comprise unexpected rise at tools for company progress and unpredicted reparations or repairs. In addition, amount of sales transactions may be basis of dilemmas. Diminished sales transactions decrease the amount of cash, which is coming to the entity, whereas enlarged volume of sales cause unparalleled growth in expenses for example, buying of additional goods and inventories, transport fees, extra pay salaries and enlarged operational outflows. Hence, unintended costs may bring cash deficiencies, which hamper small-scale organisations progress, converting cash flow accounts to the more crucial balances.. Some of small businesses not tend to predict and organise the volume of cash inflows and outflows anticipated. It has influence on the durability and productivity of companies in a straight line. Research illustrates that companies, which control their budgeting every month during the year, have more opportunity for productivity and survival of organisation than organisation monitoring cash budgeting only yearly. It is huge misunderstanding between small-scale companies that increased progress will spontaneously halt cash complications. Nevertheless, that expansion would cause to extra needs of cash funds when company gave buyer reductions for increasing sales amount. Additionally, strong, proper cash management always needs cash prediction in its initial phase. Research found that only 35 percent of investigated small-scale businesses prepare cash budgets. Thus, from investigated businesses 16 out of 25 organisations do not arrange predictions of cash flows. However, most of financial expert's emphasis that the most significant trouble for small organisations cash

direction methods cannot figure out presence of dilemmas. Likewise, period needed for imposing cash management techniques regarded time consuming than solving other most essential obstacles by small companies executives.

According to our research I found that several small-scale organisations not aware of the essence of cash flow plan and budgeting, the meaning of analysing budgeting through identification of cash budgets the highest and deepest point by prediction. The arranging and preparing budgeting may cause worry and not lead to profitable production in small companies. It used as an instrument for implementing limitations that are very tough matter for every business.

The major concentration of various small-scale organisations is the shortage of crucial economical and financial data for effective decision- making process about the performance of the company. Most small-scale business organisations need do not have professional employees to cope with financial results of the company. Consequently, answerability encounter the possessor of the business who should deal with total financial undertakings deprived of sound basis of economic, financial awareness. Rudimentary regular financial complications overcome small-scale organisations possessors' judgement because of absence of perception for fulfilling restructuring methods. Business owners try to find solutions to these dilemmas quickly with the intention of getting revenues and profits. In addition, small-scale enterprises suffer from the shortage of experienced workforce. Hence, they need to employ skilful workers and teach them best strategies to solve financial difficulties.

4.2.3 Having no bank accounts

It is significant for all small organisations to possess bank account balance. Furthermore, 8 out of 25 small-scale businesses fail to own, possess their bank balances. Having accounts in the bank institutions have plenty of advantages for businesses. It simplifies identification of effectiveness and productivity, enlarge effectiveness of company operations, create authority of company. By using bank balances organisations may exactly follow the amount of cash flows of the business entity. It prevents company from the recording false values in the

financial statements and recorders and result in the punctuality and accuracy in the indicators.

4.2.4 Acquiring loan

Sometimes small-scale organisations require getting loans from other exterior financial institutions for lending money at specific demanding times. The easiest way for gaining money or loans is going to the banks. By the reason of shortage of financing and funding start-up and small-scale business, entities may break down and go into bankrupt, since the first tool for doing procedures. Banks and other financing organisations impose limitations for giving loans or lending money to small companies that have influence on their performance. As stated by some researchers banks and other organisations that lend money requires collateral for giving them needed amount even though this enterprises have appropriate level of their capitals and assets. It is challenging for businesses putting collateral in hard economic periods. As a result, most small businesses are doubtful to borrow money from banks and money lending institutions. Fresher small or start-up companies with brief working chronicle meet difficulties for getting bank funding. 19 of 25 small businesses in my research indicated that they choose to apply for more than four institutions getting funding. Forty three percent of these targeted companies disallowed for acquiring funding. Some of the small businesses expressed that paying back loans with strict conditions is hard and limited development. The research disclosed some small business holders move individual reserves to their business. Many small businesses meet complications at acquiring financing for enlargement and progress. It is paradox for businesses acquiring loan if they have enough money resources and having trouble for finding loans if they do not possess sufficient level of cash funds and demand intensively money for securing business operations. Financing and bank organisations wants to identify lots of facts about these entities earlier than lending and certifying loan. Primarily, banks and other moneylenders need to see financial records, profits, expenditures and cash budgets. It used for ensuring stability and durability of business and reflects whether this company will pay the amount of borrowed money.

4.2.5 Inadequate cash management and cash flow dilemmas

Primarily, small-scale business holders recognised their own company operations better than anyone did. Business holders do everything for turning their small companies into profitable one by dedicated themselves. Additionally, subject in which owners do not possess proficiency is financial characteristics and issues of recording transactions. Most companies required proper cash management awareness and acquaintance for monitoring and controlling the cash and money resources of organisation. The initial and vital target of these business institutions is holding progressive cash flows from the beginning of creation their business entity and keeping the balance for accomplishing their operational aims. 42 percent of searched small businesses pointed out the hardest process for them is obtaining or getting sums of payments and disbursements from clients. Twenty six percent of small businesses informed that company have obstacle to direct and transfer cash resources and money. Hence, 32 percent of these enterprises noticed numerous hindrances about giving disbursements sellers punctually regularly. The primary source for these occurred problems is gradual and slow moving money and cash funds within the business organisations. If the right punctual approximations may not be created about the scheduling and volume of coming and leaving cash funds. Moreover, next impacting element for mentioned problems is the fulfilling cash management methods and strategies is taking too much time, other operations and functions of companies may need great volume of labour work and is hard for managers and executives to realize them during directing operations. As soon as small businesses go through inadequate cash management procedures, hiring and keeping competent, capable and skilful staffs is very tough matter. In our research, 34 percent of companies were susceptible for imposing cash management techniques because it is timely ineffective and requires the great amount of workforce performance.

Another problem encountered by many small businesses is cash movement concerns. Additionally, supervision of cash flows is sensitive matter. Approximately 63% of small businesses undergo cash running troubles. Currently

many financial managers and directors of small companies put emphasis to revenues, profits and earnings of the companies not to the movement of cash funds. According to many well-known scientists and researchers, because of uncertainty of entities consumer foundation, this can be troublesome to launch procedures utilized and exercised by greater international enterprises. Likewise, ascertaining problems, resolving cash flow dilemmas is very hard owing to the deficiency of experience and shortage of properties and capitals. Numerous financial executives and company controllers do not concentrate on issues about cash inflows, funds and outflows. Moreover, the principal faults managers made are failing to differentiate company profits and the volume of cash inflows in small entities. When companies possess progressive cash funds and balance, these businesses prefer to spend huge amounts for consuming and buying companies their needs, ignore and fail to remember the time of their regular payments in certain times. After that event, they recognize that business hold unsatisfactory reserves for paying back their commitments. Most small-scale corporations fail to place in order the disbursements of payments consecutively according to their significance and scheduled periods. There are plenty of organisations that suffer from lack of planning and monitoring movements of cash , their cash accounts, and the balance among inflows and outflows for covering their obligations for securing aimed operations. Furthermore, in most cases businesses gain profits effectively but they do not own sufficient or satisfactory amount of cash in their accounts, it is tough hindrance. This is a big fallacy that merely unprofitable companies collapse, stop working and go bankrupt. Numerous profitmaking small organisations may stop its operations because they are short of cash inflows and it is in inadequate level for small business. It becomes clear to us rise in the volume of revenues cause to reduction at the amount of inventories. If business enterprises possess satisfactory amount of profits it does not mean that they will operate effectively and competently, deprived of accessibility of cash funds, they cannot continue working. Likewise, profitability and cost-effectiveness is not the case. Faulty managerial choices may also lead to the catastrophic results such as turning to the

bankrupt. Anticipating cash movements and flows is the prevalent complexity for every small and medium business units. Due to the absence of suitable planning and preparation, financial challenges may happen and affect the productivity, efficiency, development and extension adversely.

4.2.6 Inventory control problems

Firstly, inventory management is the procedure of forecasting, planning, shaping, observing, investigating and adjusting levels of the company's inventory reserves. Subsequently inventories are investments to the assets of manufacturers and resellers, the level of stocks or inventories and the expenditures of storing them have to be optimal and certify unchanging process of production, carrying and storage practices. The core objective of inventory management is to clarify the optimal worth of closing inventory balance. The aspiration to accomplish it cause to the creation of inventory management methods. Thus, monitoring systems arose with the purpose of preventing the creation of excess inventory levels of completed products that would result in excessive restriction of enterprise cash funds and further storage expenses.

From my small research, 63% of small-scale business establishments do not own strong or weak inventory monitoring scheme. Most of them keep elementary checking instruments for inventory registers. Other parts of them just quickly take notes about inventory levels or do not maintain inventory-checking structures. Hence, numerous replies of business managers indicate that their organisation do not impose any regulating techniques for inventories. Some business managers do not need to do checks in position and not informed about important inventory monitoring approaches to fulfil. Additionally, business owners strictly execute that they knew it is correct. Some of countless business proprietors are uninformed about the volume of inventory organisations possess and need to own at specific times. Various growing businesses do not consider impacts of inventory control procedures. If the start-up businesses suffer from crisis of cash inflows, in this circumstance they recognize significance of controlling procedures and other

methods for guaranteeing accurate volume of inventories. Let us examine how weak inventory monitoring influence on sales volume.

- Obtaining inventories

- Acquired inventories positioned at the ledges or shelves

- No monitoring or checking systems exist

There are two cases:

- 1-obtained inventories sold promptly, as a result business finished the reserves of rapid trading products

- 2- Suffering the loss of clients

- 3- The amount of sales revenue and sales reduced

- 1-Buying huge amount of inventory. The quantity of inventory, which not sold, became low-grade.

- 2-Expenditures are growing

- 3-Reduction in the size of profits

4.3 Cash flow analysis

The core basis of the business company's cash flows is revenue from transactions of commodities and profits of company. Furthermore, complete value of indicators, along with dynamics for the registering phase, exemplify the efficiency and adeptness of enterprises. Returns from sales transactions apprehended as accounting profits from regular and additional sorts of firms' accomplishments for the reporting interval. Profits realized as distinction between obtained incomes and occurred expenses or costs linked with the manufacturing commodities and items. Thus, profit identify the amount net income accepted by the small enterprise for reporting interval, and accepted following the sale of goods, not in the time of reception of takings from sales. The expenses attached to the cost of production accepted after its recognition too. Hence, volume of profits expose to operation by means of accounting systems, with assistance of which this is feasible to misjudge or underestimate profit sign of the reporting time interval. Due to these explanations, profit reveals just increase of advanced rate that typifies proficiency of the business organization controlling, nonetheless does not reveal the real

availability of cash funds accessible for spending. Simultaneously, company wants not to own unrestricted cash funds to settle current liabilities, recording and detailing of actual revenues, profits and costs. Free cash resources are the most restricted principally in modern transition economy. Thus, the economic situation of firm generally determined availability and accessibility in adequate volume and successful usage of cash funds. The movement of cash resources displays the elements of it, which involves:

Cash inflows, representing their acceptance

Outflows of cash funds indicating their disbursements and expenses

The net cash flow, showing difference among inflows and outflows.

Cash flow planning represents flowing of cash, together with capital investments, earnings, taxes, fines, recompenses to creditors, borrowed and expanded funds.

Through computing cash ratios, company may identify how effectively the business is able to pay back debts, loans, to keep functional competencies, abilities and investing without applying external funding. In addition, for determining liquidity rate businesses may divide companies' liquid assets to their short-range loans or obligations of the company.

It called as quick ratio for analysing the situation: $\frac{\text{liquid assets}}{\text{short-term debts}} * 100\%$

If the value of liquidity ratio will be one without percentage or one hundred with computing percentage, business is able to pay its short-range obligations with using its liquid assets.

Second liquidity ratio is the current ratio used by financial managers and this ratio should be more than two or two hundred percent.

The current ratio $\frac{\text{current part of company assets}}{\text{short-range debts}} * 100\%$

Another ratio that is essential for computing is the cash flows to net income ratio. Quantity nearby one divided one shows that business units are not doing accounting fraud on purpose for expand earnings more than cash flows.

Every financial manager need to measure cash flow coverage ratio by dividing operating cash funds to the whole amount of debts. The value of cash coverage

ratio have to be high because in this case company may pay all its charges and loan payments by using its balance of cash flows. It is beneficial for the health of the company to assess various ratios and their effects for profitability and durability of small business units.

Conclusions and recommendations

Conclusions

For ensuring the companies' financial stability, strength and creditworthiness, cash management is vital and leading component for every business. Additionally, cash management is the treasury function of every business, in charge of achieving optimal efficiency in receivables (the amount of cash which is coming in business) and payables (the amount of cash which is going out from business. Whenever companies are issuing invoices these have to be stated as receivables, those are cash gained but yet to be received. Furthermore, depending on the conditions of the invoices, business entities may wait 30, 45, 60 and even 90 days for the cash to be received. It is ordinary for each business entities to report growing sales, yet still run into a cash crunch due to weak and poorly management of receivables. Moreover, there are plenty of things that every business enterprises may do to hasten its receivables and diminish repayment float, together with simplifying and clarifying billing provisions to customers, utilizing programmed billing facility to bill customers directly, utilizing modern electronic payment processing by means of a bank to accumulate payments. Whenever any business entities manage the amount of payables, they may healthier direct cash flows. Small-scale business entities may decrease costs and maintain more cash working in the business if they make better efficiency and effectiveness of payables process. There are solutions for payables management, for instance, direct payroll -deposit, electronic payment processing and organized disbursement can make more simple and automate functions of payables. In addition, the digital age has given chances for small-scale business entities to gain access into the same wide-ranging cash management tools used by greatest companies in the world. The savings those are generated from

more effective and well-organized cash management procedures definitely compensates costs.

Many of small-scale business enterprises meet with different kind of cash flow problems during its operational cycle. Thanks to the right effective strategies, planning and preparation most cash problems can be avoided immediately. The costs of managing and running business which are not connected instantly with selling goods, products and different kinds of services are overhead expenses (they can be rent, utilities and etc.). High amount of overhead expenses hurt and disorganize small business's cash flow. They are challenging and tough because these expenses are persistent. Thanks to my research, I found that the solution to this cash flow problem is simple but not easy. Small businesses should audit and control their expenses ,cut down where they can do. However, they should not cut too much overhead expenses, because in turn it also may hurt the business and company Actually, each small-scale business have to control and audit its expenses repeatedly to confirm that overhead expenses stay consistent. In most small-scale business enterprises, slow-paying invoices are ordinary reason for dilemmas related to cash flow and companies should offer 30 to 60-day payment periods to their clients. Nevertheless, these companies can not at all times manage to wait long for payments since, these companies require money faster. Finally, financial dilemmas created by slow-paying invoices slow payments may extremely influence small businesses. First resolution to this problem can be offering incentives to clients for paying quicker. Additionally, each client needs to be informed about these incentives. Another choice for coping with problem is utilizing invoice factoring to pay for invoices that are slow, gradual paying and this strategy recovers cash flow dilemmas directly and allows companies to offer conditions of payment with certainty. Other cash problems in small-scale businesses is the excess level of inventory and excessively bad debt. To solving the problem of excess level of inventory, purchase order financing is the best tool when companies may use it correctly and effectively. Moreover, bad debt happens

when companies provide services, sell goods and products to clients who do not pay. Too much bad debt put in danger the productivity and viability of business. To avoid too much bad debt businesses should revise the commercial credit terms of their clients, review all conditions, identifying clients with secure, good credit payment record.

In conclusion, strong cash management is the main indicator of success of small-scale business enterprises. Poor cash management may hurt the business directly. The controlling of cash flow problems and finding solutions to them is essential. Small-scale business enterprises need to audit their accounts and procedures consistently with the help of crucial financial ratios. Keeping balance, owning sufficient quantity of cash reserves and always trying to maintain them in high level give company advantage over its operations. Understanding the cycle of cash flows of firm, and accurately managing operations in the business is one of principles of cash directing. Avoiding from weak cash management tools is also vital because it can give bad outcomes for small firms due to ineffective and powerless techniques fulfilled by them.

Recommendations

Since the concept of cash management is broad and leading, for small-scale businesses in our country it is vital to be aware of it and implement numerous models and systems of cash management to work effectively and progressively in modern difficult times. The first recommendation is understanding and perception essence and outcomes of cash management techniques. It will assist small-scale companies to achieve success during fighting against cash flow dilemmas. Inventory monitoring systems should carried out in small-scale businesses and they have to put attention to the gradual selling inventories because they cause business to lose its earnings and spend to the expenditures the amount of gained profits. Controlling bad debt amounts and analysing their occurrence, imposing several conditions for debtors and clients may help these small entities to ensure diminishing bad debts. Reduction in bad debt expenditures will cause profits to

remain high because expenses lowered. Nowadays, small organisations need compute coverage ratios for analysing their situations precisely. Executing cash management systems is the one of the best decisions for companies. Additionally, according to research most companies do not arrange cash budgets and cannot examine the amount of cash flows. Differentiating cash inflows of business and the sum of earned profits is the point, which is sometimes confused by companies. Planning of all costs, deducting them from cash inflows gave better view of earnings. Arranging seminars, training for workers of companies, sending them for education, financing fees of exams and certificates may make them experienced and skilful. Moreover, possessing professional workforce is the strong indicator of business and thanks to them, this company will survive in a challenging periods. All organisations especially small ones should find reliable sources of financing in difficult times when the company will demand additional funding. Furthermore, the essential tool for growing is exactly forecasting cash flows for the near future, most companies fail to predict the volume of cash funds coming to the business and outflows from companies since they do not prefer record all transactions and occurred operations to the registers and statements to the business. All accurate values should be presented for making right decisions and predictions.

Most small business units may expand the quantity of cash inflows with the help of coping with receivables. Hence, major intention is intensifying the speediness of procees of turning inputs and materials into inventories and goods, inventories to accounts receivables and finally receivables into cash funds.

According to investigations by implementing these approaches, it will be straightforward:

Offering concessions and reductions for consumers who immediately pay their invoices.

Complete credit instruction for new clients.

Retain permanent supervising on payments, which are lengthy and slow.

Moreover, the expansion of sales volume with next to maximum amount may conceal lots of complications very effectual in some cases. However, financial

directors in emergent enterprise should attentively observe occurred costs. It is meaningless to focus just on the growing quantity of sales, firms need to examine the sources of expenses and their changing dynamics. Whenever company encountering with the case of costs of firm exceeds the volume of sales, it is significant to learn the nature and source of this implications. Several advices exist for smart spending of money funds:

Use the opportunity of the conditions offered by lenders. Repay back the loan on final day. In this situation, company will please prerequisites of suppliers, during maintaining accessible money more for utilizing. Sellers need to recognize financial condition of company better, since whenever company delay the outstanding fees, they will comprehend and support company and give chance. Another recommendation for small businesses is they must not concentrate on cheapest prices, they have to select sellers according the terms of transaction and its advantages for growth.

Furthermore, most businesses struggling because they cannot appropriately manage to check cash flow differences in the businesses. Sometimes, there are shortage of cash inflows and profits. Some small businesses do not hold bank account that is why they fail to efficiently examine or observe the movement of funds. To avoiding this dilemma, small firms may easily check the balances of their reserves and analyze the sources of discrepancies in the values. Firstly, start-up and minor business units need to determine exactly their weak sides and implement cash management strategies according the type of dilemmas. They can intensively work for obtaining high aimed results but due to deficiency of the funds it could be impossible to enlarge the amount of returns. As a result, companies have to execute various kinds of methods for resolving happened challenges. The period of gathering debt-holders disbursements is essential for monitoring since bad debts may occur in this period. Therefore, coping with the problem of payments is harder than others. However, if the firm use strong techniques of cash management, it will be effortless to resolve them promptly. In Azerbaijan, the major objective of small business enterprises is survival in modern

hardest times and maximize their gaining, obtain reduction in the amount of expenditures. Cash is the main tool for achieving all goals. Therefore, forecasting and creating cash budgets and plans may facilitate the process of maximizing profitability and productivity of enterprises. According to my research with the help of questionnaire, I found that some part of small firms do not have information about cash management. These companies should learn techniques and tactics for cash management. They can expand their operations and cash reserves by controlling incomes and expenses in business.

Businesses need to hold cash reserves for difficult times, since banks and other institutions do not accept lending money without collaterals. In addition, businesses should prefer accurately examine their financial statements, the value of indicators and the real amount of these values. The ratio analysis can be used for learning financial condition of the business units.

The models of Baumol and formulas of Miller may assist businesses to find the ideal level of cash funds for their organisation. In my research, I have learnt the link between monitoring and cash management, their complexity and interesting sides to investigate. Controlling of inventory amounts at stock, make them to be sold quickly will result in progressive outcomes for small businesses. As a result, the last recommendation for small businesses is the essence of profits to ensure their durability and effectiveness. They need to learn best strategies to fighting for their objectives in our economy. Controlling and accurately prediction is the best tools for attaining it.

Inventory control method is effective for all businesses especially dealing with receivables, since inventories sold on credit and the level of accounts receivables go up. Directing cash funds effectual cause obtaining liquidity in small organisations and acquiring cash receipts.

Cash flow statements need to be prepared timely and matching with other financial records and statements for assuring accurateness for economic indicators. Thanks to these indicators, representatives, staff and users of company make suitable and strong conclusions for their examination. Firms, which are small in their nature,

should communicate and make relationships with their partners and establish extra budget for guaranteeing good conditions for their future activities.

Detecting the origin of cash dilemmas, imposing right strategies and observing the activities within the small businesses can overcome the problems. Secondly, financial executives need to seek for taking an opportunity from effectual management of cash reserves. Comparing financial documents and statements with different periods' details and certificates can give clear dynamics of values. The companies in Azerbaijan need to be informed about the advantages of implementing various types of cash procedures, how it may facilitate managing with the operations and turn the results to better ones.

The importance of coping with problematic clients, obtaining debt disbursements promptly can be speedy with help of solid procedures. Keeping the recordings of adjustments, ensuring companies participate in new projects is very advantageous.

As a result, we can say that directing cash reserves truthfully, carrying out practices for improving the financial condition of company is all about correctly applying cash management systems to safeguard its existence for long-run. Prediction of cash flows should be done separately both for short-run and long-terms. Furthermore, company have to control the activities of employees to ensure all done efficiently and profitability will be attained.

Consequently, this dissertation concentrated on the analysis of cash problems caused by various reasons, methods for controlling and directing cash funds, examine the connection between cash management and monitoring, checking systems of companies and some research of small-businesses in Azerbaijan. According to my research, some part of companies need be better educated about the real meaning of cash management tools and their outcomes.

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