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Strengthening the Cash Flows of Cooperatives

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Abstract: *Cash is powerful. It can dictate a business entity when to shut off its operation. Without cash, a company cannot proceed with its business because ot cannot pay it currently maturing obligations. Employees' salaries, rent and other operating costs.*
Keywords: Assets, Cashflows, Cooperatives, Liabilities, Members' Equity

Cash is King! Why? Cash dictates whether an organization can still operate or not. Cash may limit the operations of an organization or Cooperatives. Cooperatives even with growing sales and profits can have cash flow problems if their operations, investing and financing activities are not properly managed.

Consider this, Net surplus of Cooperatives in the Philippines is distributed in the following manners:

1. Thirty percent (30%) goes to Mandatory funds such as Reserve Fund, Education and Training Development Fund and Optional Funds.
2. The remaining Seventy percent (70%) goes to members' patronage refund and dividends.

Henceforth, Cash from Operating Activities can be basically depleted.

So, what more Cooperatives can do to protect and manage their Cash Flows?

Cash flow cycle starts with acquisition of resources for sale of goods or services. These resources may be inventories, labor and materials. Then, when goods or services are sold, these become receivables. There will be no cashflow in this activity. But when receivables are collected, there will be an inflow of cash. Those resources that were previously acquired will then also be paid, (an outflow of cash). Operating expenses such as rent, taxes and licenses, office supplies etc. require cash outflows too. These are the cash flows from operating activities. Fig. 1 below presents Cash Flows from Operations.

Fig. 1

Collection of Revenues or Sales – Payment of Resources = Cash Flows from Operating Activities

Figure 1 gives us idea that the higher the number of days before we pay our resources and the shorter the number of collecting period of our receivables from our sale of goods or services, will result to a higher cashflows from Operations.

Investing activities show cash generated from selling of long-term assets such as Investments from equities and Property, Plant and Equipment. There will be a discharge of cash when there is acquisition of these assets. Fig. 2 shows Cash Flows from Investing Activities.

Fig. 2

Sale of Property, Plant and Equipment + Sale of Investments on Shares of Stocks + Receipts of Payment of Investments on Bonds – Purchase of Property, Plant and Equipment – Purchase of shares of stocks – Purchase of Bonds = Cash Flows from Investing Activities

Above, tells us that investments on Property, Plant and Equipment and Investment of Equities and Bonds must be planned well.

Financing activities on the other hand are cash flows on long-term liabilities such as loans, and members' capital. Fig. 3 below gives us idea on Cash Flows from Financing Activities.

Fig. 3

Receipt of Cash from Long Term Loans + Members' Payment of Subscribed Capital – Payment of Long-Term Loans – Dividends Pay-out – Payment of Patronage Refund – Use of Statutory Funds = Cash Flows from Financing Activities

This figure will guide us when to get an interest-bearing and long-term loan, how this loan be properly used and timing of payment. This also tells cooperatives that Members shares are important factor.

Cooperatives may look these two (2) activities, Investing and Financing to strengthen cashflows:

1. Avoid buying property, plant and equipment that will not generate cash or sell those that are no longer productive;

2. If there are extra cash, instead of keeping this in the banks that only earn low interests, invest to shares of stocks or to other cooperatives. Partnering with other cooperatives may strengthen the industry where the cooperative is in;

3. Pay loans that has high interest rates instead of keeping the cash in the banks that offer low interest rates;

4. Develop strategies to increase continuous Capital Build-up (CBU) such as:
   a. Encourage or include in the Articles and By Laws to hold part of the Patronage Refund and Dividends;
   b. Offer short-term savings deposits or long-term deposits account to members with higher interest rate than the bank;
   c. Increase authorized, Subscribed and Paid-up Capital Share

5. Develop better banking relationships to obtain needed funds;

6. Have a good capital structure and debt management. This does not necessarily mean that Cooperatives should have a zero debt. It is just maximizing member benefits.

Cash flows can significantly affect Cooperatives. Hence, the bottom-line for Cooperatives to keep running is to have a well-managed cash flow.

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