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Cash Flow at Risk: A Tool for Financial Planning

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Abstract

The company's cash levels can vary considerably over time depending on, payment and collection cycle. Made full and timely payment of sufficient operating capital to keep and disruption of operations, it is important to predict cash levels correctly. Cash Flow at Risk; as well as financial strategies and long-term investment planning based on the scientific basis of creation, it provides an assessment of capital structure. Through different scenarios that may occur rarely even considers events. Through Cash Flow at Risk calculations on a specific date how much cash levels may fall within the confidence interval, how can rise under favorable market conditions can be analyzed. As a result of this analysis, to meet the level of cash payments , the probability of occurrence of certain changes in the cash flow, working capital requirements for market risk are determined in consideration of cash planning is done. The purpose of the study is to evaluate the risks that may arise due to the deviation of cash flows. In this context, based on 2014 budget of a sample business, cash flow at risk will be calculated. To manage the liquidity risk of sample business, an analysis will be carried out in two different scenarios whether to use or not to use a credit.

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1. Introduction

Risk is defined as an event that has a probability of occurring, and could have either a positive or negative impact to a project should that risk occur. A risk may have one or more causes and, if it occurs, one or more impacts (www.phe.gov). The concept of risk is manageable due to the phenomenon of constantly being analyzed by investors, and development tools for hedging evil is constantly monitored studies. Risk management is a rapidly developing discipline and there are many and varied views and descriptions of what risk management involves, how it should be conducted and what it is for (www.theirm.org).

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Financial planning is a process by which you assess your financial situation and your sources of finance, determine your objectives, and then formulate financial strategies to achieve those objectives (Elahi, 2008). Having planned financial activities in advance, where they could be used in the most profitable way of funding also means early detection. In addition, financial planning, and all business units to focus on their business objectives in a coordinated way towards achieving the same goal efforts provide an important contribution.

In search of such information, the managers of the company could opt to evaluate its risk profile using the widely used Value-at-Risk measure, or, being an industrial company, Cash Flow-at-Risk (CFaR). The CFaR measure provides a summary statistic of the risk inherent in the firm's portfolio of cash flows. It essentially represents the shortfall of cash flow, associated with a certain probability, a company could experience over a certain time period. Such a modelling effort can be helpful in managing the firm's operating cash flow and provide a sense of the firm's overall liquidity risk over a certain time period (Jankensgard, 2008).

2. Financial Planning

Financial planning, investment and financing choices available to business analysis, prediction of future consequences of taken decisions, to decide which alternative will be implemented and is measured in terms of financial performance objectives identified in the plan (Brealey, v.d., 1997). In other words, financial planning, based on the available data, is predicting the company's future operations and financial condition. Financial planning for the provision of financial objectives will serve to identify ways and means. In short, financial planning for the future consists of financial analysis. (Dalgar, 2002) and also financial planning has a major influence on hedging. Financial planning is a directory of business growth and change. Financial planning decisions on the four basic cases are planned (Uzun et al., 2003).

- The level of investment in fixed assets.
- In the planning period, the company's liquidity or working capital requirement level.
- Debt and equity composition.
- How to evaluate business decisions.

The cash flow statement is utilized in financial planning. Statement of cash flows is a table showing the company's cash resources and the use of these fields in a given period. The aim of arranging the cash flow statement is preventing the constriction of liquidity. In the application part of the study, the cash flow at risk will be calculated starting from a business's cash flow statement 2014.

Financial planning has three components including inputs, planning model and outputs. Entry of financial plans consist of current and future estimates of financial statements. Planning models; are tools to help profit, investing and financing calculations. The outcomes of financial plans are the tables of projected balance sheet, estimated income statement and forecast resource usage (Ceylan, 2004).

3. Business Budgets

Budgets are the providing reports for the next operating period for the purposes of business, based on the objectives and policies of the comprehensive plan by management to quantify the monetary. A budget is a comprehensive financial plan that draws of an organization's financial and functional way to achieve the goals envisaged. Budgeting is an effective step in financial planning (Gençtürk and Bagcı: 2012).

Budgeting, despite used as an intermediate to restrict the expenses and keep under control before, nowadays to ensure the most efficient tool has been used in the hands of the company's financial resources by the leaders. As a result of this, administrators, fulfilling their duties in financing plan, they began to exploit from a financial planning tool budgeting techniques on a large scale (Özdemir, 1999). Budgets as a planning tool, profitability through effective use of resources, in the long term efficiency and liquidity is used to provide operating continuity and development.

According to the activities; businesses are preparing various budgets. Budget covering all business functions are called by the general budget or the main budget. General budget, is prepared by combining summarized which