<u>CONCEPT</u><u>: RATIOS – CASH TO MONTHLY CASH EXPENSES</u>

● The ***cash to monthly cash expenses*** is a ratio used internally to manage necessary cash outflows.

☐ This ratio considers the hypothetical situation: if we didn't get any more cash, how long could we operate?

- The monthly cash expenses are sometimes called the ***cash burn***

$$\textit{Cash to Monthly Cash Expenses} = \frac{\textit{Cash Balance at Year End}}{\textit{Monthly Cash Expenses}}$$

$$\textit{Monthly Cash Expenses} = \frac{\textit{Cash Outflows From Operating Activities}}{12}$$

Analysis: This ratio shows how many months we could operate before running out of csh (assuming no more cash inflow).

PRACTICE: The Liquid Company had a cash balance at the end of the current year of $14,511. If the monthly cash expenses total $3,495, how long could Liquid stay in business before going bankrupt, assuming no cash inflows?

a) 4.15 months

b) 3.12 months

c) 6.33 months

d) Not enough information.

PRACTICE: Tougher Company's had the following data for 2018 and 2017:

	2018	2017
Cash and Cash Equivalents	$9,353	$4,376
Cash Flow from Operations	($13,915)	($18,770)
Cash Flow from Financing Activities	$32,000	$18,000

What was the increase or decrease in the ratio of cash to monthly cash expenses in 2018?

a) Increase 5.3 months

b) Decrease 5.3 months

c) Increase 8.1 months

d) Decrease 8.1 months