

NICHE-SEARCH

WORKSHEET 6 OF 9

Pre-IPO Cash Story Reconstruction — 36-Month Direct-Method Summary

Use when institutional investors or underwriters request a direct-method cash flow reconstruction for due diligence. Maps cash receipts and payments by category for each of the past 36 months.



Complementary worksheet for
Cash Flow Management Essentials
by Ibrahim Anwar

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What This Is For

When institutional investors or a big-four auditor arrive for due diligence and ask for a direct-method cash flow reconstruction, the business has one of two positions: either the data exists in a format that permits the reconstruction in a matter of days, or it does not and the work takes months, billed by the hour, while management's attention is pulled from running the business.

This worksheet is the tool for building that reconstruction systematically across 36 months, category by category, with a reconciliation check built into every month. The goal is not only to produce the numbers — it is to produce them in a format that an independent auditor can verify against actual bank statements and transaction records. Anything that cannot be traced to a source document is not a verified figure; it is an estimate, and experienced auditors distinguish between the two within the first hour of any review session.

Benefits

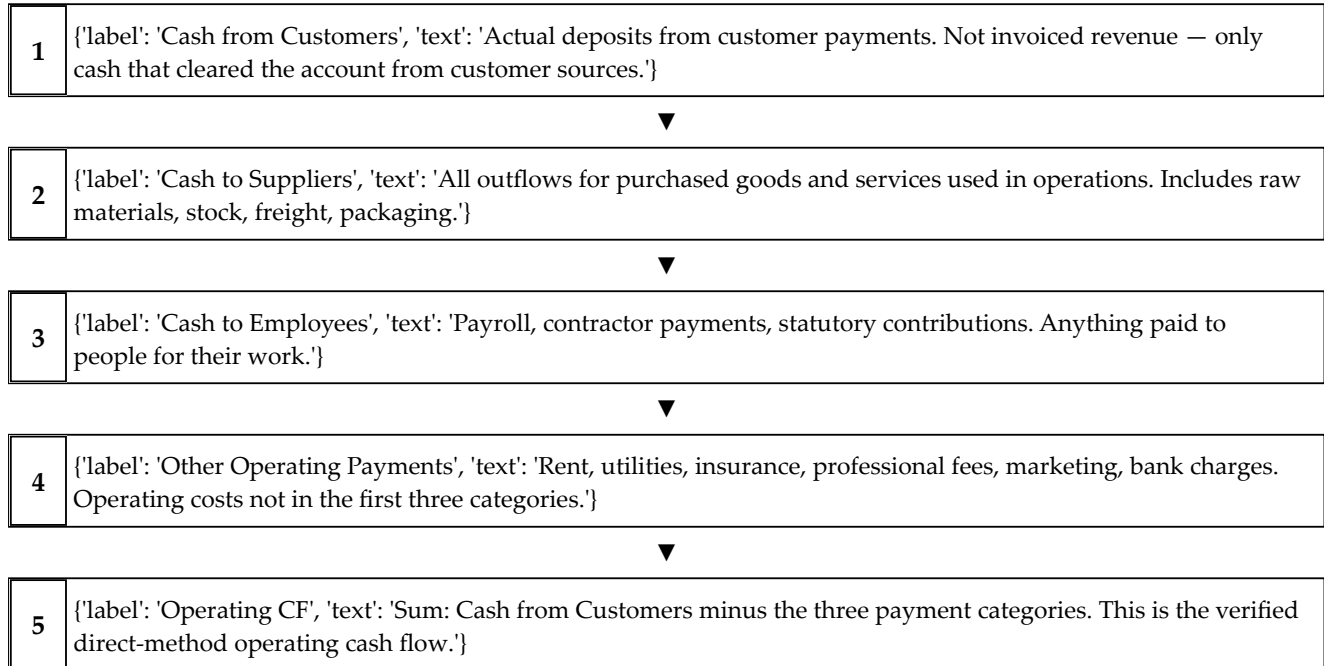
What you get when you actually run this worksheet on a real situation:

- Produces the 36-month direct-method operating cash flow trail that institutional investors require for private placement or IPO due diligence.
- Built-in reconciliation check flags discrepancies between direct-method and indirect-method figures before auditors surface them.
- Reveals the implied DSO per month from the receipt-to-revenue comparison — a metric underwriters use to evaluate receivables management quality.
- Completed incrementally over four quarters, it is vastly cheaper to build than a retroactive reconstruction under due diligence time pressure.
- Documents the data quality of the business's transaction recording system — which is itself an evaluated governance indicator in due diligence.

Framework To Use

— Receipt-Category Mapping

Every cash transaction belongs to one of four operating categories. Assign each before totaling — assignment is the work, not the arithmetic.



How To Use

Follow these steps in order. Each one builds on the previous.

- 1 Gather 36 months of bank statements for all business accounts. Separate personal accounts — any mixed-account months require manual reclassification before starting.
- 2 For each month, classify every deposit by source: customer payment, loan drawdown, asset sale, owner capital injection, or other. Sum all customer payments — this is 'Cash from Customers' for that month.
- 3 For each month, classify every outflow by destination: suppliers, employees, financing (loan repayment, interest), investing (asset purchase), or other operating. Sum the supplier, employee, and other operating categories separately.
- 4 Calculate operating cash flow: Cash from Customers minus Cash to Suppliers minus Cash to Employees minus Other Operating Payments. Enter in the Operating CF column.
- 5 Enter investing CF (net asset purchases and sales) and financing CF (loan drawdowns and repayments, owner injections and withdrawals) in the final two columns.
- 6 Reconciliation check: the indirect-method operating cash flow figure from your existing monthly financial statements should be within 5% of the direct-method figure you have just calculated. If the gap is larger, find the reconciling item before proceeding to the next month.
- 7 After completing 12 months, calculate the implied DSO: average monthly cash received from customers divided by average monthly invoiced revenue, expressed as days (divide the ratio into 30). Compare this implied DSO to the DSO reported in management accounts.
- 8 Complete three sets of 12 months to cover the 36-month window. The final summary row shows 36-month totals per category and a trend line readable at a glance.

Example Use

A regional food and beverage distributor with \$4.2 million in annual revenue begins the reconstruction 14 months before a planned private placement. The financial controller has 4 months to complete the 36-month trail before the auditor engagement begins.

Month one takes the longest — approximately six hours. The controller works through 14 months of bank statements (one account, plus one salary account). Every deposit is classified: \$312,000 from customer payments, \$8,500 from a government grant (financing), \$21,000 from the sale of a retired delivery vehicle (investing). Cash from customers for Month 1: \$312,000.

Outflows: \$198,000 to three main suppliers (verified against purchase orders), \$44,000 in payroll across two payroll dates, \$18,500 in other operating (rent \$9,200, utilities \$2,100, insurance \$4,400, professional fees \$2,800). Operating CF Month 1: $\$312,000 - \$198,000 - \$44,000 - \$18,500 = \$51,500$.

The indirect-method figure from the existing monthly report shows operating cash flow for the same month at \$48,200. Gap: \$3,300, or 6.8% — above the 5% threshold. The reconciling item turns out to be a \$3,300 advance payment to a freight contractor that was coded to prepaid expenses on the balance sheet rather than to operating outflows. Corrected, the gap drops to \$200. The controller documents the coding error and the correction in a reconciliation note attached to Month 1.

By Month 4, the controller has the pattern and each subsequent month takes under two hours. The 36-month trail is complete three months before the auditor engagement begins. When the auditor arrives and requests the direct-method reconstruction, the controller delivers a single workbook with 36 monthly rows, source document references for each major transaction, and a reconciliation note for any month where the direct-to-indirect gap exceeded 2%. The auditor's opening comment: "This is the best-prepared reconstruction we've received from an SME at this stage."

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. If the direct-method reconstruction differs from the indirect-method operating cash flow in any month by more than 5%, stop and find the reconciling item before continuing. An unexplained difference will be the first question from the auditor — and a pattern of unexplained differences across multiple months will delay the entire due diligence process.

2. After completing 36 months, calculate the average DSO implied by each month's Cash from Customers versus the invoiced revenue for the same month. If this implied DSO is materially and consistently higher than the DSO reported in management accounts, there is a receivables data discrepancy that must be explained before any prospectus is filed.

Tips and Traps

TIPS

- Start with one complete calendar year before attempting 36 months. The first year takes longest because classification conventions are being established. Months 13 through 36 are faster because the conventions already exist.
- Build a simple classification key at the top of the workbook: which vendor names map to 'Cash to Suppliers,' which bank references map to 'Cash to Employees,' which deposit descriptions map to customer payments. One lookup key eliminates repeated categorization decisions.
- Document every reconciling item, even small ones. Auditors read reconciliation notes to assess the quality of the accounting system, not just to check the arithmetic.
- Run the implied DSO calculation after completing each 12-month block. A DSO that drifts upward across three years tells a story about receivables management that auditors and investors will find — better to know it first.
- Engage the external auditor to review Month 1 through Month 3 before completing the remaining 33 months. Getting feedback on the classification methodology early prevents rebuilding a large number of months due to a systematic classification error.

TRAPS

- Using the indirect-method operating cash flow as a substitute for completing the reconstruction. They produce the same total figure but different category breakdowns. Institutional investors want the category breakdown — that is the information the indirect method does not provide.
- Including loan drawdowns in 'Cash from Customers.' Any cash that came from a bank, owner, or investor belongs in Financing CF. Mixing these inflates the Customer receipt figure and produces an overstated operating cash flow.
- Starting the reconstruction under due diligence time pressure. The three-year lookback that took the Sumatra distributor months to reconstruct with consultants billing by the hour would have taken a financial controller four to six months of normal-pace work if started two years earlier.
- Not keeping the source documents that match each month's figures. An auditor who asks 'what bank reference supports the \$312,000 in customer receipts for Month 1?' needs to be able to see the bank statement line items, not just the worksheet total.
- Treating the reconciliation check as optional. Every month where the gap is above 5% and unexplained is a potential audit finding. Build the reconciliation into the workflow, not as a final check.

Appendixes

Appendix A – Monthly Classification Reference

Cash from Customers:

Include: customer payment deposits, advance payments received, partial payments on invoices

Exclude: loan drawdowns, grants, owner capital injections, proceeds from asset sales

Cash to Suppliers:

Include: payments to vendors for goods, raw materials, freight, packaging, subcontracted services

Exclude: loan repayments, interest payments, payroll

Cash to Employees:

Include: salary payroll, contractor payments, statutory contributions (employer portion), bonuses

Exclude: owner's personal withdrawals (classify to Financing)

Other Operating Payments:

Include: rent, utilities, insurance, bank charges, marketing, professional fees, office supplies

Exclude: asset purchases (Investing), loan repayments (Financing)

Appendix B – Implied DSO Calculation

For each month:

Invoiced revenue that month : \$ _____

Cash from Customers that month : \$ _____

Implied collection ratio : Cash ÷ Revenue = _____%

Convert to implied DSO (approximate):

If collection ratio is 80%, cash = 80% of the month's invoices.

The remaining 20% is still outstanding.

Implied days outstanding = (1 - collection ratio) × 30 days
+ collection lag adjustment.

Simpler approximation:

Implied DSO = (Outstanding receivables at month-end) ÷
(Total cash received that month ÷ 30)

Compare implied DSO (from reconstruction) to DSO from management accounts each month. Consistent material difference = data discrepancy to explain before filing.

Appendix C – Reconciliation Row Format

For each month, complete a reconciliation row:

Net income (per income statement) : \$ _____
Add: depreciation and non-cash items : \$ _____
Less: increase in receivables : \$ _____
Less: increase in inventory : \$ _____
Add: increase in payables : \$ _____
Indirect-method operating CF : \$ _____

Direct-method operating CF (this sheet) : \$ _____

Difference : \$ _____
Difference as % of indirect-method CF : _____%

If difference > 5%:

Reconciling item identified : _____
Resolution : _____



WHERE THIS WORKSHEET COMES FROM

Cash Flow Management Essentials

Why Profitable Businesses Still Run Out of Money

by Ibrahim Anwar

This worksheet is one of nine in the *Cash Flow Management Essentials* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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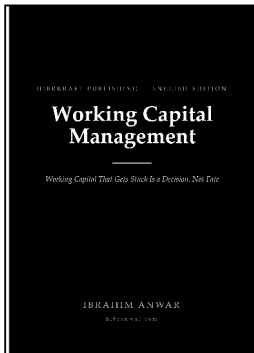
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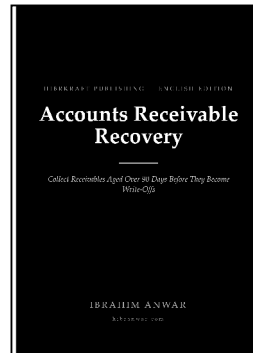


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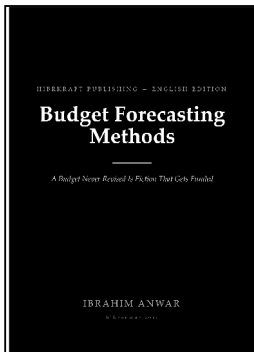


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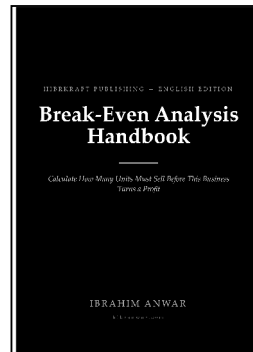


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