

5 STATES OF CASH (5SOC)

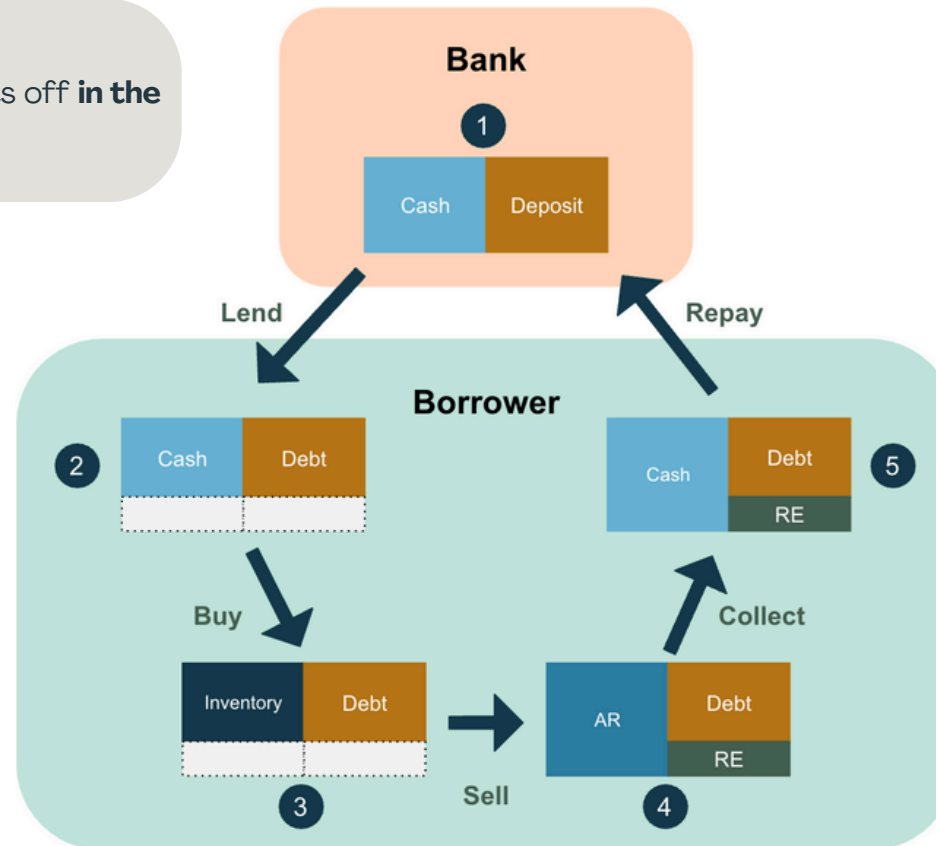


1ST STATE

The cash first starts off **in the bank**.

2ND STATE

The cash is then lent to **the borrower**.



5TH STATE

When the AR comes due, the borrowers **collect cash**. Using which, they can choose to service the loan to the bank.

3RD STATE

The borrower uses the cash, to **buy inventory**.

4TH STATE

After selling the Inventory on credit, the borrowers **receive AR**.

THE RISKS IN CHANGING THE 5 STATES OF CASH

DISBURSEMENT RISK

"Lending to the wrong borrower"

- **What it is:** Funds given to fraudulent entities (e.g., 1MDB scandal)

DIVERSION RISK

"Funds used for unintended purposes"

- **What it is:** Cash diverted for other causes, over servicing debts.
- **Red Flags:** Repaying shareholders / "Consultancy fees" to related parties

UTILISATION RISK

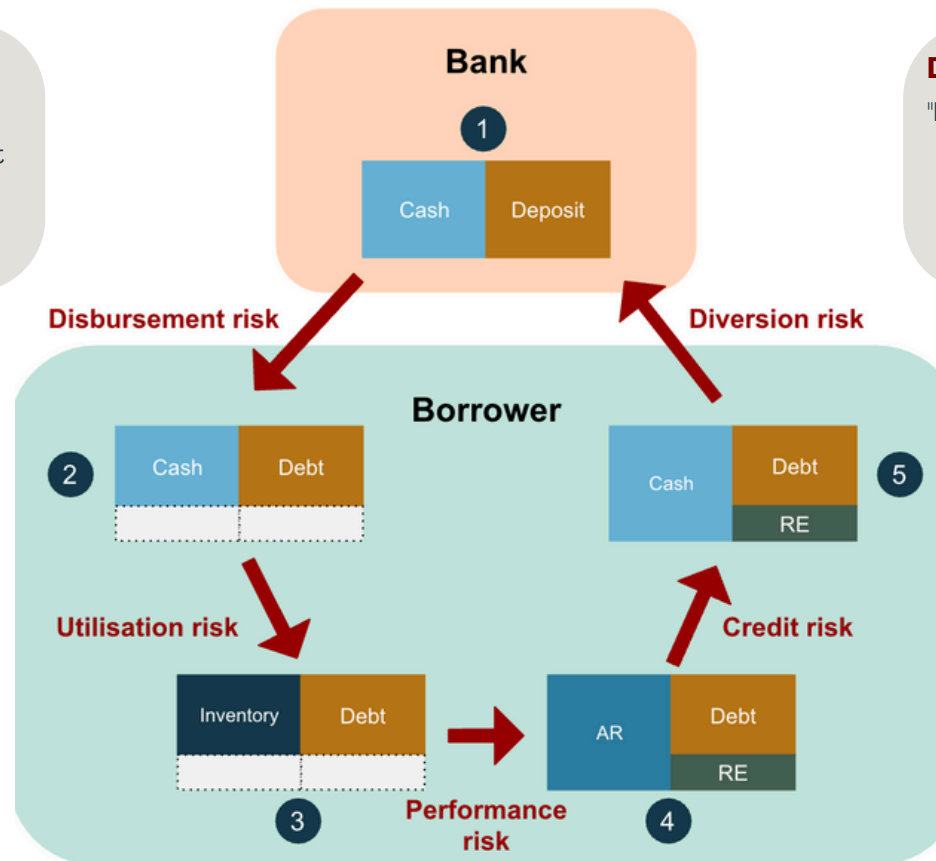
"Inefficient or unproductive use of funds"

- **What it is:** Funds are used in ways that do not generate value (e.g., buying sports cars).

CREDIT RISK

"Default or delayed repayment"

- **What it is:** The risk that the borrower fails to repay the loan as agreed.



PERFORMANCE RISK

"Failure to meet financial or operational goals"

- **What it is:** The inability to generate sufficient cash flow to repay debts .