



## INTERPRETING CASH FLOW FIGURES

*“Sometimes your best investments are the ones you don’t make.” — Donal Trump*

It is a well-established fact that good cash flow is essential to running a great business. However, reading a cash flow statement may not always be a simple process, especially when it comes to interpreting the numbers and drawing conclusions from them. With that in mind, we have compiled a list of some of the elements that go into a cash flow statement in order to help you in the process:

### 1. Net Cash Inflow from Operating Activities

This is the profit before depreciation adjusted by changes in creditor and debtor accounts, but in some cases other items may be included here. Because depreciation is a non-cash cost, the main effect on this figure comes from changes in debtor and creditor accounts, where decrease in debtors’ and increase in creditors’ balance both mean cash has flown into the business.

### 2. Returns on Investment and Finance Costs

This number reflects what you have made after subtracting interest paid on debt from interest earned on cash balances.

### 3. Net Cash Outflow from Finance Costs

This is the result of the items above.

### 4. Taxation

This is the outflow of cash (and sometimes an inflow) as a result of government corporate taxation.

### 5. Capital Expenditures

The result of cash spent to bring fixed assets in the company, minus the cash received from selling off any assets gives the capital expenditures figure, a very important figure especially for asset-intensive industries.

### 6. Net Cash Outflow, Capital Expenditures

This figure is the result of the one above and does not represent a new figure.

### 7. Dividends Paid

This reflects the amount paid to shareholders in the form of dividends.

### 8. Net Cash Inflow before Financing

This number reflects the net cash that comes in as a result of running the business after paying tax to the government and dividends to shareholders, excluding any financing.

### 9. Financing

Financing is the balance of cash inflows (e.g. increased financing) and outflows (e.g. repayment of debt).

### 10. Increase in Cash

This is the sum of inflows from finance and the amount generated from operations, giving the final increase in cash in the bank account.

**The key point here is not to confuse cash with profits.** While a company can show cash increases on its cash flow statement, looking at its income statement, it may or may have not turned profits.

## IPS Recommends...

- Being aware of the fact that cash flow is different from profit, and that profit is a figure that is part of the Income Statement
- Having an understanding of the terminology involved in reading a cash flow statement-- “debtors”, “creditors”, “dividends” and etc.
- Developing an awareness of how cash flow works to create the cash position of a company. In other words, making sure management understands where cash is coming from and going to



## INVESTING IN TECHNOLOGY

In order to create or sustain growth, companies need to invest in new technologies. But the focus should always be broader than the technology dimension itself, uniting various groups in an organization, from technical staff to management and customer service, all in with the goal of improving customer value proposition and enhancing the overall customer experience. Here are some of the questions you should ask yourself when assessing new technology projects:

### 1. Is it feasible?

The process of due diligence cannot be stressed enough when it comes to new technology projects. Due diligence provides managers with information that can help them assess the quality and potential of technologies for improving business processes.

### 2. What is its value?

The real worth of a technology lies in its ability to add value to existing products, services or business processes. Depending on the size of an enterprise, different models can be used to assess the value of a technology.

NPV or Net Present Value is used for smaller technology projects with more or less certain outcomes, and more complicated ones such as Black-Scholes and Monte-Carlo analyses are more popular with large and complex projects.

### 3. Does it fit with the overall technology strategy?

Strategy is an important dimension to be considered when implementing a new technology. Does the proposed technology fit with the overall organization's strategy? Based on the degree of competition in a certain market, technologies can generally be classed into four categories: base, key, pacing and emerging, and this criterion can be extremely helpful in assessing strategic importance.

### 4. Is implementation an easy or a complicated process?

The right technology needs to serve the entire organization. In order for managers to choose the right technology implementation processes to work on, they need to align strategy, people, financial resources and organizational processes together.

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