



INTERPRETING CASH FLOW FIGURES

"Sometimes your best investments are the ones you don't make." — Donal Trump

It is a well-known fact that good cash flow is essential to running a great business, but reading a cash flow statement may not always be easy. Therefore, 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 (and 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 (decrease in debtors' and increase in creditors' balances 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 figure is the result of the items above.

4. Taxation

This item represents 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 item 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 final category is the sum of inflows from finance and amounts 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 not turn profits.

INVESTING IN TECHNOLOGY

“The ultimate promise of technology is to make us master of a world that we command by the push of a button.” — Volker Grassmuck

In order to create or sustain growth, companies need to invest in new technologies. However, the focus should always be broader than the technology dimension itself. One example is 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’s 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 is 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 mostly 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 the main dimension to be considered when implementing a new technology. Does it 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 these criteria 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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