Business Cash Flow

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Never take your eyes off of cash flow. It’s the lifeblood of the business.

- RICHARD BRANSON

What is Cash Flow?

Cash flow results from changes in Working Capital, Long Term Assets, and Long-Term Liabilities / Equity.

Cash Flow is either positive (increasing) or negative (decreasing).

What Cash Flow is not.

Cash flow and Net Income are different.

Net Income is the difference between Revenues and Expenses. (Income Statement)

- Net Income measures how well the business is doing in selling and providing goods / services.

Cash Flow is management of a business' assets and liabilities.

Cash Flow Management

A business can be very profitable (high net income) and not be able to pay its bills.

Cash can often invested in A/R and inventory.

Impact Revenues minus Expenses

Businesses need to manage accounts receivables and inventories as part of cash flow management.

The Three Activities of a Business-Operations

Operations – What the business does to earn its profits. (Changes in Working Capital)

Service firms provide services, while merchandising businesses sell products (tangible goods).

Operating activities are the assets and processes that businesses use to generate revenue (sales).

Operating Cash Flow

It is normal for profitable businesses to generate a positive operating cashflow. Companies with losses can make up the deficit caused by the loss by generating cash through management of short-term assets / liabilities.

Negative operating cash flow may be a result of growth and is therefore is not a “bad” thing.

- Small Business Paradox

Investing Activities

Investing Activities- Where the business makes long term commitments in terms of assets (Changes in Long Term Assets).

Positive cash from investing activities is caused by the sale by the business of long-term assets. Negative cash is caused by the purchase of assets like equipment.

Cash Flow from Investing Activities

Negative cash flow from investing activities is an expectation as this would indicate the productive capacity of the business is growing.

Positive cash flow from investing is the result of liquidating the profit-making capacity of the firm.

Financing Activities

Financing Activities- What the business does to acquire the resources to get the assets it needs (Changes in Long Term Liabilities and Equity).

Positive cash from financing activities is caused by the business borrowing from creditors or adding equity. Negative cash is caused by the payment of liabilities or return of capital.

Cash Flow from Financing Activities

Positive cash flow from borrowing more long-term debt or equity. The kind of positive cash flow would be expected during a time of revenue growth.

Negative cash flow from financing activities often occurs as the business matures.

Tracking Cash Flow

An easy method to track cash flow is to break the company’s balance sheet into three parts that are linked to the three activities.

Working Capital = Current Assets – Current Libiliaties

Long Term Assets

Long Liabilities and Equity

Tracking Cash Flow

Compare the Company's Balance Sheet for the beginning of the period and end of the period.

1.) Assets increase / Liabilities decrease that is negative cash flow

2.) Assets decrease / Liabilities increase that results in positive cash flow

Many online accounting programs will produce a statement of cash flows.

Questions??