



## CASH FLOW ANALYSIS

***Avoid unpleasant financial surprises by using a cash flow analysis.***

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The cash flow statement enables you to track cash as it flows in and out of your business and reveals to you the causes of cash flow shortfalls and surpluses. The operating activities are the daily occurrences that are essential to any business operation. If these are positive, then it indicates to the owner that the business is self-sufficient in funding its daily operational cash flows internally. If the number is negative, then it indicates that outside funds were needed to sustain the operation of the business.

Investing activities generally use cash because most businesses are more likely to acquire new equipment and machinery than to sell old fixed assets. When a company does need cash to fund investing activities in a given year, it must come either from an internal operating cash flow surplus, from financing activity increases, or from cash reserves built up in prior years.

Financing activities represent the external sources of funds available to the business. Financing activities typically will be a provider of funds when a company has shortfalls in operating or investing activities. The reverse is often true when operating activities are a source of excess cash flow, as the overflow often is used to reduce debt.

The increase/decrease in the cash figure at the bottom of the cash flow statement represents the net result of operating, investing and financing activities. If a business ever runs out of cash, it can't survive, so this is a key number.

You will be able to use the cash flow statement not only to analyse your sources and uses of cash from year to year but also from month to month if you set up your accounting system to produce monthly statements. You will find the cash flow statement to be an invaluable tool in understanding the hows and whys of cash flowing into and out of your business.

You will need accurate and timely financial information to help you manage your business effectively. Your financial statements will also be critical budgeting tools as you seek to achieve financial milestones in your business.

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