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# cash flow management

A simple checklist to improve your cash flow

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## In brief

Open the annual report of any company and you will find a Cash Flow Statement. It usually follows the Income (or Profit & Loss) Statement and the Balance Sheet. It is generally required by the accounting standards of the jurisdiction in question and follows a standard formula. For people not used to reading accounts, it might appear daunting, but it follows a very simple formula.

It divides cash flow into three types:

1. Cash from operating activities: the money that comes in from sales and goes out in purchases of supplies in the course of the actual operations of your business
2. Cash from investing activities: cash expended to buy assets for the firm, like land and buildings, or on the inflow side, income arising from sale of assets.
3. Cash from financing activities: cash received from activities such as borrowing from banks, or issuing shares, less cash paid out in loan repayments or dividends.

That pretty much accounts for what you can attend to in any business. From an accounting point of view, cash flow management is based on how you handle this mix of items. The three categories summarised in the graphic in the next page. The three steps on the following pages look at actions you can take to improve each one.



## Three sources of cash flow

Cash flow from operating activities



Cash flow from investment activities



Cash flow from financing activities



## Operating activities

### Step 1

**Can you improve your cash situation in any of the operational areas?**

- can payments to suppliers be discounted, extended or exchanged for services?
- are inventories too high? Is there a case for a sale?
- are receipts from customers being recovered in total and on time?
- can they be recovered sooner?
- are you billing effectively?
- can you reduce employee overheads by outsourcing opportunities?
- can payment of incentives be scheduled differently?
- are you over-employing people?
- are you efficiently planning to minimize tax?



## Investment activities

### Step 2

**Can you improve your cash situation in any of the investment areas?**

**Over time, businesses build up an asset base that doesn't always necessarily match the configuration of investment need to support the business:**

- do you need all your assets?
- are they all equally productive?
- should you buy or rent land and buildings?
- should you be leasing machinery rather than buying it?
- could you raise cash via an asset "garage sale"?



## Financing activities

### Step 3

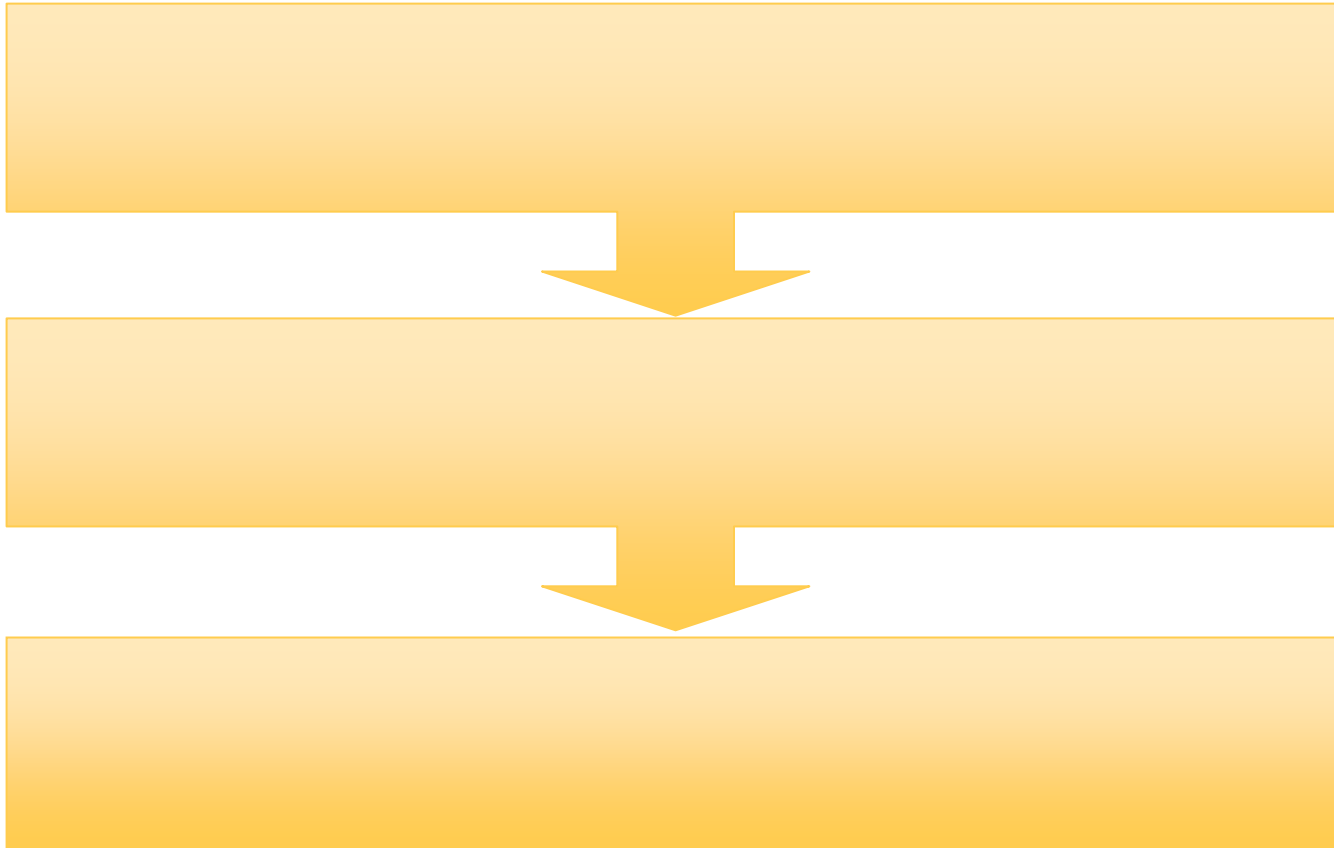
**Can you improve your cash situation in any of the financing areas?**

The financing of a business changes over time and so does the cost of that financing:

- are your borrowing effectively and at the best rate?
- can you speed up or slow down your repayment schedule?
- is raising new equity a good avenue to explore?
- if you are paying dividends, should you hold them back or reduce them?
- should you examine a dividend re-investment plan?



## List the three most effective actions you can take



Three yellow rectangular boxes are arranged vertically, connected by downward-pointing arrows. The top box is connected to the middle box by a large yellow arrow pointing downwards. The middle box is connected to the bottom box by another large yellow arrow pointing downwards. This layout is intended for the user to list three actions.



**For more information, visit my website [www.alanhargreaves.com](http://www.alanhargreaves.com)**

Hi, I'm Alan Hargreaves. I specialise in simplifying complex business problems. In over 35 years as a business executive, I have never found an issue that cannot be addressed through identifying the essential but simple steps required to make any problem manageable. It might be your career, your firm, your team or your strategy. It doesn't matter. All hurdles can be lowered through dispassionate analysis, and all executives can embrace simple processes to take them forward.

Using these techniques, I have helped hundreds of people through the various stages of their business or career development. It may be the challenge of taking on new responsibilities; it could be the task of managing a business you have created yourself; it may be handling a difficult team in the midst of major change. I use a straightforward combination of key principles to get results: collaboration, adaptation, simplification and action. You can contact me anytime at [alan@alanhargreaves.com](mailto:alan@alanhargreaves.com).



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