***Financial information: what to look for***

When Finance is on the agenda, whether the Finance Director is talking, or there are numbers on the screen, or a finance report has been handed out, people tend to glaze over, because most of us aren’t comfortable with finance.

But our financial performance is important. Without financial success the business will fail, and we’ll lose our jobs. And it’s the people doing the work – not the directors or the Finance department – who make the business successful.

So it’s important that we engage with the financial discussions. Here’s some tips about what to look for or listen out for when finance is on the agenda.

**Profit and cashflow**

These are the two big issues of financial success. If we don’t make a profit (or live within our income) we’ll fail eventually. So pick out the parts of the discussion that are about profitability.

Cashflow is about money in the bank. We need to have enough money in the bank to pay salaries on pay day! Working capital (especially customers paying late) is usually the biggest barrier to healthy cashflow.

**Elements of profit**

There are three key elements to profit to pick up:

* How much is coming in?
* How much are we spending?
* What’s the surplus or deficit?

If you’ve got a printed report, highlight the sales line. How are we doing against budget? compared to last year?

Then find and highlight the total costs, and ask the same questions. If you’re looking at accounts for the whole company, costs could be divided into Cost of Sales (production costs) and Overheads (the cost of HR; IT; Finance; Sales & Marketing and the other service departments).

Then look at the profit (or surplus). The same questions apply. If the accounts are for the whole company, there’ll be two relevant profit lines: gross profit (after the production costs), and operating profit or profit before tax (after all the costs).

**Cashflow**

This is about money in the bank. Again, there are three key elements to identify:

* How much money is in the bank and what’s the overdraft limit?
* How much is in inventories (stocks and WIP)?
* How much do your debtors owe?

These questions won’t apply to everyone, and the first will only be relevant at the organisational level – if you’re a budgetholder it isn’t your responsibility!

The inventories are the stocks of raw materials and finished goods, and the unfinished work in progress. Inventories are important because they tie up cash, which means less money in the bank! If you have a warehouse or showroom, walk round it one lunchtime and try and work out the value of the goods there. That’s all cash that isn’t in the bank account!

What’s the value of debtors? Debtors represent work we’ve done and invoiced, but the customer hasn’t paid us yet. Again, it’s cash that isn’t in the bank account.

In the Academy there’s a whole section on working capital (that’s the inventories and debtors)!

**So what do we do with the information?**

The purpose of financial information is to highlight our progress on our journey towards financial success, and to raise questions.

We’ll look at that in the next article.