

# Why cash flow from operations is important information

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Importance of Operating Cash Flows for Small Businesses Nothing can be more important for a small business than managing cash flows. Most of the small businesses fail within the first couple of years only because of lack of cash management. Cash flow from operations is a direct measure of company's short term health. The cash that goes in the business and the cash it generates are measured by cash flow statements. Operating cash flow statement reflects everything about the cash that the business plays with. The cash that comes in from operating activities of the business is the actual revenue that the firm generates. Operating expenses are subtracted from the operating revenues to extract the net cash flow from operating activities; this is why it is so important for small businesses to keep in check its operating cash flows.

The other reasons why cash flow from operating activities is so important for small businesses is its ability to quickly determine the immediate financial health of the company. Cash flow is important as it gives the firm the ability to pay off current expenses. The current expenses usually include; labor costs and debt repayments. For these reasons, cash flow from operations (CFO) is important for both parties; the firm as well as the lenders and creditors. The creditors can assess the investment potential of the company from its CFO. Small businesses usually start with debt financing and the interest is an operating cash flow, since this figure is adjusted for liabilities, depreciation and receivables (Ross, Westerfield, Jordan, 2012), an operating cash flow is generally more accurate measure of how much cash the business has generated as compared to other measures such as Net Income (NI) or Earnings Before Interests and Taxes (EBIT).

## Reference

Ross, S., Westerfield, R. & Jordan, B., 2012. Fundamentals of corporate finance standard edition. McGraw-Hill/Irwin