

Manufacturing management

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In simple terms, cash flow is how money moves into and out of your business or how the cycle of cash flows in and flows out of your business thereby helping to determine the solvency of your business (How, 2007).

Cost flow in a manufacturing firm involves the expense of the direct materials the manufacturer will be needing for business, the cost of direct labor that will need to be paid for as part of the cash flow process along with the manufacturing overhead that needs to come out of the cash flow.

Whereas the cash flow in a service firm would not as much involve physical materials in general but the cost of training, marketing, advertising, travel in addition to the expense involved in whatever particular service that firm specializes in.

In general, in the operations of a manufacturing firm most of the work would be handled in a central location, namely if it is one firm, in that particular manufacturing firm's location. Travel can be a necessity for the management in some manufacturing firms. Employees and especially management of a service firm would be less "centrally located" in that service firm employees generally travel to the places and customers which need their services.

With manufacturing firms you may have a few individuals who travel to introduce their product but overall the energy and expense would be "product-related." Service firms generally do not spend as much time, energy or development or industrial design as most of their time spent in research, development and advertising their particular services.

The majority of their time and energy would be service-related and changes more from user to user than would a manufacturer who generally supplies to places that need the products they already manufacture. One would have more blue-collar employees within a manufacturing firm while more white-collar employees would be in the labor force of a service firm due to the different training, education and skills needed for the two different types of firms.

Vertical analysis would be “ dividing each expense item in the income statement of a given year by net sales to identify expense items that rise more quickly or more slowly than a change in sales (Vertical, 2007). In using the vertical analysis, an analyst would be able to give management the information results gained by comparing the percentage mark-up of asset items along with how they have been financed. In addition, an analyst would be able to observe the trend of the increase in the assets and liabilities over the years (Vertical 2007).

The statements that would be used for the vertical analysis would come from comparing the financial statements of firms that vary in size. Using a balance sheet, the assets, liabilities and the assets would be expressed as 100% whereas each item in the various categories would be expressed as a percentage of the respective totals. In using the common size income statement all the items in the income statement would be expressed as a percentage of the sales while sales is expressed as 100%.

Horizontal analysis would be “ the process of dividing each expense item of a given year by the same expense item in the base year. This process allows

assessment of changes in the relative importance of expense items over time and the behavior of expense items as sales change” (Vertical, 2007).

The most important information the horizontal analysis provides management would be trend.

Over several years the direction, speed and extent of the trend can be seen by the information provided by the horizontal analysis. The statement one would use to do the horizontal analysis would be setting consecutive balance sheets, income statement or statement of cash flow side-by-side and reviewing any changes in the various categories on a yearly or multiyear basis (Vertical, 2007).

References

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