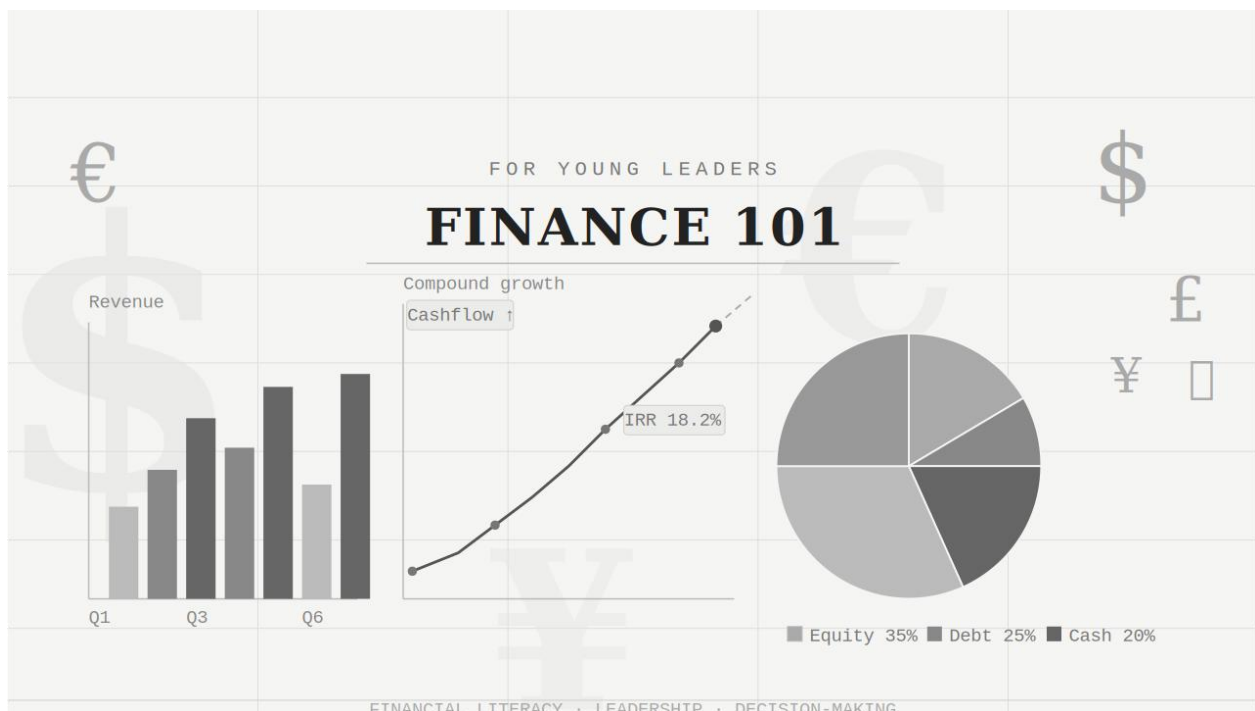

Finance 101

for Emerging and Young Leaders

A plain-language guide to the financial concepts every leader should know



Sid Kumar

First published on sidkumar.net

Ver 1.0 July 2026

This work is licensed under Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0). To view a copy of this license, visit <https://creativecommons.org/licenses/by-nc-nd/4.0/>

CC BY-NC-ND 4.0

Table of Contents

Before You Start.....	2
Introduction.....	3
1. Earnings, P&L and Annual Report - The Top Line	4
2. Opex	7
3. Capex.....	9
4. The Magical Depreciation	11
5. EBITDA, Gross Profit and Net Profit - The Bottom Line.....	13
6. Cash Flow - Cash Is King!	14
7. The Balancing Act - Balance Sheet.....	17
8. Art of Estimation and Cost Modelling (TCO / ROI)	21
9. Budgeting and Forecasting	25
10. Metrics and Ratios	27
11. Lease vs Buy.....	29
12. Conclusion - Show Me the Money Honey!	31
13. Glossary	32
14. Further Readings and Resources	35

Before You Start

Your project proposal got rejected. Finance said there was no budget. Three weeks later, a different project got approved for twice the amount. Same organisation. Same year. Why?

Your team has \$200k unspent at year-end. You know next year's budget will be cut if you don't spend it. So, you spend it. Is that the right call? Why does the system make you feel like it is?

Someone in your last meeting said "this will hit the bottom line." You nodded. You don't know what it truly meant. Want to find out?

A vendor quoted you a TCO. It looked reasonable. You approved it. Two years in, the real cost is 40% higher. What did you miss? What did they know you would miss?

This is an attempt to answer these questions. Go section by section. Read it like a book. Come back to sections when you need to check something.

Who Should Read This?

- If you are new to managing people or departments, this is for you.
- If you are an individual contributor who wants career growth, this is for you.
- If you want to make better financial choices for your organisation and do not fully understand Finance, this is for you.

This is not a treatise on finance. These are things learned over the years that have helped in a career. You will have to dig deeper yourself. Sit down with an expert in your organisation. Somebody who works in Finance and is willing to teach you the nuances without the jargon.

Introduction

Many years ago, this was a conversation I had with a Finance manager, let's call her Rita.

Rita: *Sorry, I am late. Was busy with year-end stuff.*

Me: *Rita, what keeps you so busy at the year-end?*

Rita: *There was a huge variance between forecast and actuals.*

Me (stunned): *Is the forecast not called a forecast for a reason? Even the weather forecast is not supposed to be accurate.*

Rita: *Shall we talk about how your estimates are so effing way off the actuals?*

We both laughed and headed for a coffee.

Late last year at a FinOps roundtable, one of the attendees quipped that FinOps is a great tool to keep Finance off his back. Laughter in the room. Here are some other real tech and finance quotes.

"Tell me your budget, I'll fit the TCO within that." - A vendor who shall remain nameless

"All ROI models are wrong. The accuracy is inversely proportional to how desperate you are for the investment." - A technology leader who shall also remain nameless

In working life, we always have to deal with the Finance department. In fact, in many organisations, IT is still under Finance. It was probably fine when IT was only a cost centre and spent a small percentage of money. Interestingly, most companies' annual reports still sum up the costs of IT under one line item: *Computer and Communications Costs*.

Terms like TCO and ROI are sometimes used as throwaway comments by vendors and leaders alike. They will always be wrong. The question is how wrong. It is futile to aim for 100% accuracy. There is usually an acceptable range. It depends on scale and risk appetite. The range is typically $\pm 10\%$ to $\pm 30\%$.

As a young leader in my early days, I had limited understanding of finance and accounting. A dollar was a dollar (or rupee!) to me. The nuances of Capex\$ vs Opex\$ were unknown to me. Depending on type of organisations I worked with, one was always favourable over the other. Try spending Opex in a Capex and asset-rich organisation. Worse, try asking for Capex in Opex friendly organisation.

1. Earnings, P&L and Annual Report - The Top Line

"This will affect our top-line". I don't remember how many times I have heard this or a similar statement. It made me wonder what on earth is the top-line. The revenue, the earnings, the sales, anything that generates income is part of the top-line (mostly). This is where you must start. How does the organisation make money? How do you find that out, especially if you are way down the food chain? All public listed company, government agencies and many others list their earnings in their Annual Report or a similar publication. Privately held companies do not share this, and this information is tightly held between the shareholders and the accountants!

The first thing I ask my leaders and teams is to read the annual report. It is a great source of information. There are some very well written annual reports, some tell a nicely woven story, and some are just awfully written. If there is only one thing you want a takeout from this will be, go read your company's annual report today. It is a great conversations starter as well. With Finance, with senior leaders and other business units.

Key financial information is usually found in the Statement of Earnings page (also known as an Income Statement or Profit & Loss). This page tells you three basic things. How much money the company made and how much money was spent compared to past. And, how much was the profit/surplus or loss/deficit, again compared to past. The past is usually 1-2 years of comparison. Now that is gold. This is the P&L (Profit & Loss) you keep hearing about.

If your organisation does not produce an annual report, it will be a bit difficult to find this information. If you are curious and ready to learn, read other companies' annual reports. For the Kiwis, try [Auckland Airport's annual report for 2025](#). One of the very well written reports including the Finance section. I'll use this as an illustration where it makes sense. The extract below is from the earning summary of Auckland Airport's Annual Report for year ended 30 June 2025 (FY25).

	2025	2024	
	\$M	\$M	Change
Income	1,004.7	895.5	12%
Operating expenses	303.6	281.5	8%
EBITDAFI ¹	701.1	614.0	14%
EBITDAFI margin	69.8%	68.6%	-
Depreciation	200.7	168.4	19%
Interest expense and other finance costs	72.3	72.4	(0)%
Taxation	133.5	337.8	(60)%
Reported profit after tax	420.7	5.5	7,549%
Underlying profit after tax	310.4	276.6	12%
Earnings per share (cents)	25.87	0.37	6,375%
Underlying earnings per share (cents)	19.08	18.75	2%
Ordinary dividends for the full year			
- cents per share	13.25	13.25	-
- value distributed	223.3	195.8	14%

¹ EBITDAFI is earnings before interest, taxation, depreciation, fair value adjustments and investments in associates

¹ Source: Auckland Airport Annual Report 2025, Financial Performance, pg. 134

I have highlighted some of the key items that I will refer below. At the simplest level, in the year ended 30 June 2025:

- Auckland Airport generated \$1,005m of revenue (**Income**)
- Spent \$304m in operating the business (**Operating expenses** or **Opex**)
- Therefore, **EBITDAFI** (usually known as EBITDA) earnings before applying taxes, depreciation, interests etc. was \$701m [**Income (1005m) – Operating Expenses (304m)**]
- That is an EBITDAFI margin or just margin of 69.8%. This is commonly referred to as the operating margin
- $$\text{EBITDA Margin\%} = \frac{\text{Revenue (\$1005m)} - \text{Operating Expenses (\$304m)}}{\text{Revenue (\$1005m)}} \times 100\% = 69.8\%$$
- Note the changes against the previous year ending 2024, a 12% increase in revenue compared to an 8% increase in expenses, resulted in a 14% increase in margin.

One might think, that's a huge profit, but we'll come to that later as that is not the whole picture.

It is not just the numbers that should be of interest. Most reports also either breakdown earnings by business units or functions. How did Auckland Airport generate a revenue of over \$1b. Who paid? Who is the customer? I park at Auckland Airport parking when traveling for work. How much does parking contribute to their revenue? Here is a snapshot:

Revenue breakdown (% of total)

Year ended 30 June 2025 | Total income \$1,004.7m

Revenue category	FY2025 revenue	% of total revenue
Aeronautical	\$449.1m	44.7%
— Passenger service charges	\$278.2m	27.7%
Rental income (total)	\$203.2m	20.2%
— Investment property (incl. ibis Budget Hotel)	\$172.9m	17.2%
— Aeronautical & retail rental	\$30.3m	3.0%
Retail	\$189.2m	18.8%
Other income	\$86.7m	8.6%
Car parking	\$72.5m	7.2%
Flood-related income	\$4.0m	0.4%
Total income	\$1,004.7m	100%

Source: Claude AI analysis of Auckland Airport Annual Report 2025 pg. 134–136

When no or minimal flights were operating, during COVID, you can probably see how it would have affected the revenue. No flights, no passengers, no retail = No income. But it does not mean no expenses! As a leader you must understand what the different revenue streams are and what will change if one of the business units does not generate revenue. As a leader you must know what levers you have in the area that you are responsible for. These key levers are helpful to either generate revenue or reduce costs. When I started working, there were two parts of the businesses, and it is still true. You are either part of a profit centre (revenue generating) or cost centre. Most finance departments still use the word Cost Centre in their accounting, as that is where all costs (and revenue) are attributed to.

2. Opex

A dollar is not a dollar. The earlier you understand it the better. In my early career I was doing a proposal for upgrading a system. I had laid down all the costs including any one time and recurring costs and took it Finance for approval. It was rejected because there was tight pressure on any Opex increases, and all projects with significant Opex increases were being “parked” for next year. I was surprised because I was told there was money available. It was only available as Capex! That was my initiation into the world of Capex and Opex, and then later Depreciation.

Let’s start with **Opex**, it is more straightforward. Opex or Operational Expenditure is any expense that can be marked as being used to operate the business. The biggest Opex for most companies is labour cost. (Yes, the white-collar work that you do every day is still labour. Emotional labour!). This includes salaries, leave entitlement, holiday pay, perks and anything related to people costs. This is why when business run into trouble, the first and the easiest step (for management, not at all for people!) is to reduce the headcount.

Then there are other forms of Opex: maintenance costs, rent, short term leases, travel, support costs for hardware and software. Anything that you fill up an expense claim form is generally an Opex. Another rule of thumb is most recurring costs can be classed as Opex, not all recurring costs are Opex though. What about Cloud services? As a rule of thumb and after many years of consultants and finance pros trying to change directions, most cloud services costs are Opex, unless proven otherwise. Most cloud subscription costs are Opex, but implementation, customisation, and migration costs need to be assessed individually.

Using the Auckland Airport as an example again, this is what their Opex for FY2025 looked like:

Auckland Airport - Opex Breakdown FY2025

Expense Category	FY2025	% of Opex
Asset management, maintenance & airport operations	\$136.4m	44.9%
Staff costs	\$85.9m	28.3%
Rates and insurance	\$41.4m	13.6%
Other expenses	\$18.0m	5.9%
Marketing and promotions	\$10.2m	3.4%
Professional services and levies	\$8.2m	2.7%
Flood-related expense and impairment reversal	\$3.1m	1.0%
Fixed asset write-offs	\$0.4m	0.1%
Total Operating Expenses	\$303.6m	100%

Source: Auckland Airport Annual Report FY2025, p. 138

Over 73% of the Opex is maintenance and staff. If you get asked to reduce your Opex by 10%, (\$30m) which happens from time to time, where are you gonna start? No point looking at rats and mice expenses to start with.

Note that the Opex is real money going out of the bank account. It mostly shows up in the cash flow that we discuss later. What about prepaid Opex? What's that?? Let's say you buy 5 years of prepaid maintenance/support, what do you do? This is where accounting practices come into picture. The Opex will be divided into five years, and each year's portion will show up in that year's Opex. Companies usually do that to get discounted support. You pay for 4 years up front to get 5 years (or more) of support. It is a win-win situation if your company has no cash flow problem and is happy to pay cash upfront subject to a discount. The discount must be more than what that cash could have earned if invested elsewhere. The supplier wins because they get a committed contract and makes their cash flow better. They also have practices that allow them to defer the recognition of revenue over five years.

3. Capex

Let's talk about **Capex** or Capital Expenditure. A key principle to understand and in very simple terms, is that Capex is the money that is spent to build or create an **Asset**. Any company that builds an asset is expected to directly or indirectly help with operating the business, generating additional revenue or reduce costs. In other words, there is an expectation, that if money is spent building an asset (Investment), either it will sustain or increase the income to operate the business or reduce costs. Most tech companies will have their infrastructure, software, buildings they own will be listed as an asset.

Capital is something that is invested in the business, (note use of *invested* not *spent*). Like every investment, there is an expectation of *returns*. This return mostly shows up in increased revenue or lower costs. Another variable to think of is *time*, as the returns could be near term (2-3 years) or over a long period (7+ years). More on this the ROI (Returns on Investment) later.

Large organisations and infrastructure heavy organisations set aside a fair chunk of their revenue in Capex spent. What you will find interesting is that not all of this Capex comes from profits or surplus. There are many ways to generate capital or raise funds for Capex. Common examples include borrowing from bank, equity/shares offer, crowdfunding, public funds. Let's look at the Auckland Airport example again. What did they spend on Capital, and how did they raise it? What did they spend it on? Let's first answer this based on the annual report.

Auckland Airport - Capex Breakdown FY2025

Category	FY2025	% of Total
Aeronautical - new domestic jet terminal, international arrivals hall, airfield	\$877.9m	80.5%
Property development - IKEA & DHL facilities	\$104.6m	9.6%
Car parking - Transport Hub, wayfinding upgrades	\$52.3m	4.8%
Infrastructure - digital network, resilience & security	\$45.0m	4.1%
Retail - store refurbishments, food & beverage	\$10.1m	0.9%
Total Capex	\$1,089.9m	100%

Source: Claude AI analysis of Auckland Airport Annual Report FY2025, p. 205

This gives a very interesting picture of how such a large Capex of just over \$1.09b is allocated. Wait a minute! Do you remember what was their total revenue for the year? \$1.05b. They spent more than they earned on Capex and still showed a healthy profit! How is that possible you may wonder! We will come to that.

So how did they fund this? Auckland Airport raised \$1.375b by issuing 201m new shares. These shares were bought by institutional investors (think KiwiSaver, Superannuation funds, large investors), and a small portion of retail investors. It used this to repay debt, and borrow as well, and some funds came from cash reserves. See below an analysis of how the Capex was funded:

How Capex was funded

Year ended 30 June 2025

Funding source	FY2025 (\$m)	% of Capex funded
Equity raise (new shares issued) \$1.2b institutional placement + \$200m retail offer at \$6.95/share. 201.4m new shares issued Sept 2024. Net of \$25.1m issue costs.	\$1,374.9m	~80%*
New borrowings (net) New debt drawn (\$412.1m) less repayments (\$655.0m) = net debt reduction of \$242.9m.	-\$242.9m	Net repaid
Operating cash flows Cash generated from running the airport after tax and interest payments.	\$474.3m	~27%*
Total capex funded	\$1,089.9m	100%
* Approximate allocation: Equity raise and operating cash together funded capex, with surplus equity proceeds used to pay down \$242.9m of debt		

Aust. medium term notes

\$964m

NZ fixed rate bonds

\$1,043m

NZ floating rate bonds

\$250m

Bank facilities (drawn)

\$100m

Commercial paper

\$131m

Total borrowings

\$2,487m

Source: Cash flow statement p. 148 | Capital raise note 18 p. 189 | Borrowings note 16 p. 139

Capital isn't free, there is a cost of capital. You must understand this. Every form of capital has a cost associated with it, even money sitting in your account. It would have earned interest if it was not used for capital. Capital borrowed from a bank will be charged interest on the debts. A fundamental mistake leaders make is they do not consider cost of capital. I made the same mistake too in the early days of my career. It changes the whole picture. We'll cover the cost of capital in the cost modelling section later.

So, this solves how the funds were obtained, but it does not solve how Auckland Airport remained profitable after spending more than it earned. This is where **Depreciation** comes into picture.

4. The Magical Depreciation

When you spend loads of money into a building or infrastructure or technology, you don't stop using it after the financial year. You continue to use it for a few (or many) years, just like a car or computer you may have bought. For this reason you spread the cost over a number of years.

How many years? It depends! Usually, technology items are spread over 3-5 years. Plant machinery is usually longer at 10+ years. Usually, but not always, the number of years is based around useful life of the asset.

What about software? It gets harder with non-tangible assets such as home-grown software, or licensed software that you have purchased. A rule of thumb is that the license that gave you the right to use the software perpetually was Capex, and the support you pay for it is Opex. You could depreciate the perpetual cost over 4-5 years. More and more licenses are now subscription based, which is mostly Opex. The classification depends on whether the company controls the underlying asset. For hosted/cloud software, even with a perpetual-style license, if the vendor controls the infrastructure, capitalisation may not be appropriate.

So how do you depreciate? Most common method is the straight-line depreciation, in which the value of asset reduces by the same rate every year. Another method is diminishing value, where the value of asset reduces a lot in the beginning. Like new cars, they lose most of their value in the first year.

For the formula geeks:

$$\text{Depreciation} = \frac{\text{Cost Value} - \text{Residual Value}}{\text{Useful Life}}$$

As a simple example, if you buy a laptop for \$1500, and you could donate it after three years of useful life, the depreciation for the laptop will be $(\$1500 - \$0) \div 3 = \$500$ per year for 3 years. Residual value is useful for plant and machinery that could be even sold as scrap even if the asset is of no use. This is why your Finance team will not approve a \$500k software purchase in one year but will happily approve it over five if it is C

In New Zealand, IRD (Inland Revenue) has got really useful guidelines around depreciation. Check it out [here](#). Note that, IRD (or other revenue agencies elsewhere) rates are for tax purposes. Financial reporting depreciation uses useful economic life, which can differ from the IRD rates.

So going back to Auckland Airport example, right at the beginning, you will note that there is no mention of Capex in the Statement of Earning. There is a depreciation amount of \$200.7m, which will comprise of depreciation of assets from previous years and the current year's Capex. Since most of the Capex of Auckland Airport is building and airport infrastructure with a long useful life (unlike technology!), the depreciation amount is comparatively small. Here is a

snippet from the report explain how they have calculated depreciation and useful life. For the keen-eyed ones, note the useful value of Land asset.

Depreciation

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amount of an asset, less any residual value, over its estimated useful life.

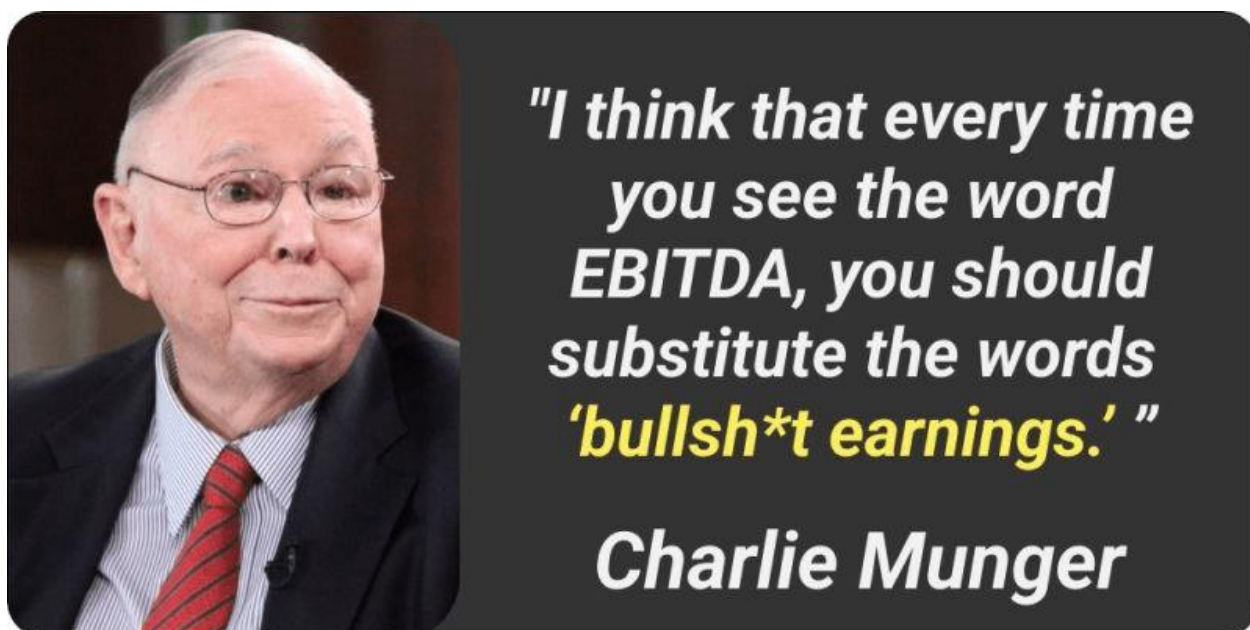
The estimated useful lives of property, plant and equipment are as follows:

Land (including reclaimed land)	Indefinite
Buildings and services	5 – 50 years
Infrastructural assets	5 – 80 years
Runway, taxiways and aprons	12 – 40 years
Vehicles, plant and equipment	3 – 10 years

Source: Auckland Airport Annual report 2025, pg. 150 Note 2 Summary of material accounting policies

If you are still reading, well done! You have covered the most difficult and technical part.

5. EBITDA, Gross Profit and Net Profit - The Bottom Line



Source: Warren Buffet and Charlie Munger at Berkshire Hathway Shareholder meeting. [Warren Buffett and Charlie Munger on EBITDA](#)

Let's demystify EBITDA, bit by bit. EBITDA stands for **Earnings** before **Interests**, **Taxes**, **Depreciation** and **Amortization** (definitely not Ammonia!). Now, another thing to remember is that both Depreciation and Amortization are accounting inventions and do not involve any cash transactions. Amortization is similar to depreciation, except it is used for intangible assets. Did I hear someone say funny money?

In case of Auckland Airport, EBITDA or EBITDAFI (F = Fair Value Adjustments, I = Investments in associates), is calculated as Income (\$1,004.7m) - Operating Expenses (\$303.6m), which is \$701.1m, and the EBITDAFI margin therefore is 69.8%.

	2025 \$M	2024 \$M	Change
Income	1,004.7	895.5	12%
Operating expenses	303.6	281.5	8%
EBITDAFI ¹	701.1	614.0	14%
EBITDAFI margin ¹	69.8%	68.6%	-

Source: Auckland Airport Annual report 2025, pg. 134

So why did Charlie Munger call EBITDA bullsh*t earning? EBITDA or its various flavours are used today by many companies to tell the market, and investors how are they performing. It has become the single most popular metric that companies and investors chase. Isn't that great! One metric to tell us how an organisation is performing. No. Here's why:

- **Manipulative.** EBITDA and any of its variants are not defined in any accounting standard. Note in Auckland Airport's reporting, that they say which standard do they use EBITDA as a non-GAAP measure for planning and reporting. (pg. 153. Note 3(d))
- **Misleading.** Ignores any amount of capital spent as depreciation and amortization are not included. It can mask heavy debt.

In the desire to keep shareholders and the market happy, there could be a push to drive EBITDA toward the forecast. Sometimes Opex costs get shifted to Capex! This is why at the end of financial year independent auditors spend weeks auditing the accounts. I have attended a few audit meetings and have answered many questions that helps them validate or invalidate the accounting treatment. Questions like "*Who controls what can be upgraded and when?*" Usually, if none of these are in your control, it is likely Opex. Remember, if you are in front of auditors, answer honestly. It is fraud to do otherwise. After Enron debacle, auditors have been more cautious and have taken a bit more accountability. Notable examples of fraud: Worldcom (2002) and Satyam Computers (2009). Watch out for any signs of moving money around between Capex and Opex, or deferred costs or revenue. Stay curious.

Gross Profit is another term widely used. It makes more sense in a manufacturing industry, or any goods producing.

$$\text{Gross Profit} = \text{Revenue} - \text{COGS (Cost of Goods Sold)}$$

Although this looks similar to EBITDA, it differs in one key aspect i.e. COGS or cost of Goods Sold. COGS includes all direct costs of production, e.g. raw materials, direct labor, and manufacturing overheads. These are the costs that are directly attributed to the cost of producing any goods (physical product) or service (i

In a service industry, it is subject to interpretation, as one has to figure out direct labour and material cost specifically for that service. This could work for single service line organization with one service. Most business offer multiple services, related and unrelated, and they use shared resources. So, if you see a COGS being used in a Services industry, have a closer look how they calculate it. If you work in the IT industry, and have been time-sheeting, this is why! It helps to calculate the labour cost for a either a project or service.

So how do you know what is the actual profit? After all expenses that are deductible from the revenue, you arrive at the **Net Profit** or **Bottom Line**. For Auckland Airport it was \$310.4m. It is recorded as Underlying Profit after Tax (also known as PAT). If you hear statements like "*This will impact the bottom line*", means that it will reduce the net profit. Now that's not something that will make the shareholders happy! [**Note:** I am deliberately using shareholders and stakeholders.]

6. Cash Flow - Cash Is King!

Have you heard - "*Cash is King*"? It is true. A business needs a healthy flow of cash (hence **cash flow**) to operate. Why do we need cash? To pay the outstanding invoices, salary or wages, interest payments etc. Money comes in through sales and invoices paid by customer, money goes out to suppliers, employees, debtors and anyone else who needs to be paid.

Every organization has two functions that deal with this Accounts Payable (A/P) and Accounts Receivable (A/R). A/P takes care of all activities related to paying others, and A/R ensures that the business is paid on time.

A simple rule of thumb for a healthy cash flow - *Money coming in > Money going out!* Cash flow does not lie. It gives a very clear picture of what is happening in the business. Let's take a look at cash flow of Auckland Airport.

Cash flow summary	2025 \$m	2024 \$m	Change
Net cash inflow from operating activities	474.3	496.3	-4%
Net cash outflow from investing activities	(1,105.2)	(1,124.0)	2%
Net cash inflow from financing activities	979.0	741.2	32%
Net increase in cash held	348.1	113.5	207%

Cash flow summary Auckland Airport 2025.

Source: *Annual Report 2025 pg. 139.*

There are three key **activities** in this summary, and the term Net Cash Inflow/Outflow. Let's break each of these.

Net cash inflow from **operating activities** - This is the engine. All the money that came into the bank due to the sales activities and revenue generated, less all the money that was paid to suppliers, staff, interest etc. This excludes any payments made for capital expenditure. This is real cash we are talking about, there is no funny money. Here is how the \$474.3m stacks up:

Operating Activities - The Engine

Operating Activity	FY2025
Receipts from customers	+\$927.4m
Insurance proceeds	+\$12.9m
Interest received	+\$29.4m
Payments to suppliers & employees	-\$317.1m
Income tax paid	-\$104.5m
Interest paid	-\$73.8m
Net operating cash inflow	+\$474.3m

Net cash outflow from **investing activities** - This is the money spent on any investment, capital expenditures, machinery, equipment etc. Note this is not the depreciated amount, but actual cash that was spent. Any sale of asset e.g. building, stock etc, is added to it. Auckland Airport spent \$1,105.2m in investment activity. It is broken up below.

Investing Activities - Capital Spend

Investing Activity	FY2025
Dividends received from associates	+\$5.3m
Property, plant & equipment additions	-\$937.8m
Capitalised interest on construction	-\$65.3m
Investment property additions	-\$106.6m
Investment in joint ventures	-\$0.8m
Net investing cash outflow	-\$1,105.2m

Net Cash inflow from **Financing Activities** - Note that Auckland Airport spent \$1105.2m in real cash, and it only had \$473.4m coming into its bank. This deficit is funded by raising funds or capital, even borrowing. Any money paid out, such as debt repayment or dividend payout, is captured here.

Financing Activities - Raising Capital

Financing Activity	FY2025
New share capital (equity raise)	+\$1,374.9m
New borrowings drawn	+\$412.1m
Debt repaid	-\$655.0m
Dividends paid to shareholders	-\$153.0m
Net financing cash inflow	+\$979.0m
Net increase in cash held	+\$348.1m

Source: Cash flow summary p. 138 | Full statement of cash flows p. 148 - Auckland Airport Annual Report FY2025

All the cash flow activities together create a net increase in the cash of \$348.1m, that is a very healthy position to be in. Why? A healthy cash balance is crucial for a business to continue to operate in adverse conditions. Most companies that cannot survive downturn are because of poor cash balance. When there are no sales or no customers (remember COVID), how do you continue to pay staff and bills? From the cash balance. This is why *Cash is King!*

7. The Balancing Act - Balance Sheet

The **Balance Sheet**. We had a running joke in our tech team many years ago. "All the accountants care about is that the left-hand side (LHS) equals the right-hand side (RHS)". Didn't get it? Read on. *(Psst! Finance people, hopefully you are not reading this as you don't need to but if you are, we also know the running tech jokes in your teams. "If it is not working, just reboot"!)*

Every organisation has something called a balance sheet. No, it is not a sheet of paper, and also this term is in use before Excel *sheets* existed. Most young managers get some responsibility for P&L. It is easier to understand, ties well with the budget cycle. Then suddenly you hear someone say, "Can't we dip into the balance sheet for funds?" Balance sheet is tad bit hard to understand than the income statements, so this section might be a bit slow, as there are a few things to cover.

At the core of balance sheet, there are three terms - **Assets, Liability and Equity**. Assets are what you own, Liability is what you owe, and Equity is the difference between what own and what you owe. In principle, it is no different than the equity in your house that you have a mortgage on. However, businesses are not simple, they have many forms of assets. The balance sheet is a statement, at point of time (usually a fiscal year-end date), what a business owns and what a business owes.

Let's unpick each one of these.

Assets - What a business owns. This includes anything that the business owns. Plants, machinery, fixed assets, cash in bank, inventory in stock, accounts receivable, and whatever that can be turned into cash by selling it, either in the short term or long-term. Sometimes, you will find some interesting terms in the balance sheet, such accumulated depreciation, goodwill, Intellectual Property etc. Depreciation, as in Section 2, appears here too. Some of these are intangible assets - you can't touch or spend. Take Intellectual Property of Software as an example.

Goodwill is what is usually captured as dollar value of brand and found in many Mergers & Acquisitions. This is what a company pays for buying another company over and above the asset or book value of the company. When Microsoft acquired the gaming giant in a \$68.7 billion mega-deal, the company recognized roughly \$47 billion in goodwill. This massive premium reflected Microsoft's purchase of priceless intellectual property (like Call of Duty and World of Warcraft), entry into mobile gaming via King, and the potential to supercharge Xbox Game Pass subscriptions.

Liabilities - What a business owes. There are many ways to acquire or build the assets described above. The owner may have put in a lot of cash or borrowed from bank or an angel investor. Liabilities can explain how these assets were acquired to build. They also represent

normal trading debt that arises as part of operating, e.g. owing money to your suppliers. This includes, any debts, accounts payables, deferred revenue. An example of deferred revenue is when company that sells a \$120k annual contract upfront can only recognise \$10k per month in revenue, as they deliver the service. That directly affects the P&L.

Equity - Net worth of the business. This is what remains after taking into account what the business owns (Assets) and owes (Liabilities). This includes Shares (at issuing price, not market price) and any retained earnings. Retained earnings are the profits that have been re-invested in the business and not paid out as dividends.

The balance sheet is called so, because the assets balance the liabilities and equity. This is also called the fundamental of accounting equation.

Assets = Liabilities + Equity. Now do you get the LHS must equal the RHS joke? Every transaction that one side has an effect on the other side. You want to build/buy new asset, you will need either add more debt (Liability) or pay using cash you already have (reduces a different asset) or raise money through additional share capital (Equity). Also remember, that the income statement also has an impact on the balance sheet. It does not sit in isolation. All three - assets, liabilities and equity are interconnected.

Let's decipher Auckland Airport's balance sheet now. Starting at a very high level, the basic equation. You can clearly see Assets = Liabilities + Equity.

As at 30 June	2025 \$m	2024 \$m	Change
Non-current assets	13,404.2	12,113.0	11%
Current assets	658.4	303.2	117%
Total assets	14,062.6	12,416.2	13%
Non-current liabilities	2,953.7	3,240.2	(9)%
Current liabilities	636.1	565.9	12%
Equity	10,472.8	8,610.1	22%
Total equity and liabilities	14,062.6	12,416.2	13%

FY2025 Financial Position. Auckland Airport 2025. *Source: Annual Report 2025 pg. 140.*

Let's dig deeper into Assets.

Assets - Auckland Airport FY2025

Asset Line Item	FY2025 \$m	FY2024 \$m	Change
Cash and cash equivalents	567.8	219.7	+159%
Trade and other receivables	90.5	82.3	+10%
Derivative financial instruments	0.1	1.2	
Total current assets	658.4	303.2	+117%
Property, plant & equipment	9,782.7	8,755.0	+12%

Asset Line Item	FY2025 \$m	FY2024 \$m	Change
Investment properties	3,366.5	3,123.9	+8%
Investments in associates & JVs	193.5	180.6	+7%
Derivative financial instruments (non-current)	61.5	53.5	+15%
Total non-current assets	13,404.2	12,113.0	+11%
TOTAL ASSETS	14,062.6	12,416.2	+13%

The airport has worth \$14b of assets, of which \$9.7b is made of property, plant and equipment. This is what you will expect from an airport - buildings, machinery etc. Note how they separate Investment Properties separately.

Liabilities - Auckland Airport FY2025

Liability Line Item	FY2025 \$m	FY2024 \$m	Change
Accounts payable and accruals	162.3	205.0	-21%
Taxation payable	76.3	65.4	+17%
Short-term borrowings	380.5	281.4	+35%
Provisions	16.5	13.8	+20%
Total current liabilities (Due within 12 months)	636.1	565.9	+12%
Term borrowings	2,106.8	2,403.3	-12%
Deferred tax liability	817.2	810.0	+1%
Other non-current liabilities	29.7	26.9	
Total non-current liabilities (Due beyond 12 months)	2,953.7	3,240.2	-9%
TOTAL LIABILITIES	3,589.8	3,806.1	-6%

You can see that compared to their assets, they have a reasonable liability, which is great. Not just that, they have reduced their liabilities further from last year. This is beyond my expertise to go through each liability item, some are self-explanatory. Best to consult your finance partner for additional explanation. I am out of my depth in this case.

Equity - Auckland Airport FY2025

Equity Line Item	FY2025 \$m	FY2024 \$m	Change
Issued and paid-up capital	3,163.5	1,739.9	+82%
Reserves (property revaluations)	5,193.6	4,977.9	+4%
Retained earnings	2,115.7	1,892.3	+12%
TOTAL EQUITY	10,472.8	8,610.1	+22%

Source: Consolidated Statement of Financial Position, Auckland Airport Annual Report FY2025, p. 147

Based on the balance sheet equation, it all makes sense. But what is Reserves? Per the report Reserves (\$5.2b) are largely the cumulative revaluation gains on land and property over many years. Auckland Airport owns very valuable land that gets revalued upward regularly. If you were following the cash flow and remember that they raised capital worth nearly \$1.4b. It appears in the balance sheet, see the change in topmost line item of Equity, it is around \$1.4b.

Leave Liability - A Practical Example

As a young manager, a monthly memo arrived from HR with a Leave Liability Report. The assumption was that HR wanted to look after people's wellbeing. That was part of it.

When an employee leaves with 20 days of accumulated annual leave, the company pays those 20 days in cash. In a 100-person company where everyone earns \$400 per day (pre-tax), if no one took leave: $100 \times 20 \times \$400 = \8 million sitting as a liability on the balance sheet.

If you are a manager and do not understand this, you are signalling to your HR and Finance team that you are not ready for your next step.

Key Terms in Equity and Assets

- **Retained earnings:** profits reinvested in the business rather than paid as dividends.
- **Goodwill:** what a company pays for acquiring another business above the fair value of its identifiable net assets. When Microsoft acquired Activision Blizzard in a \$68.7 billion deal, they recognised roughly \$47 billion in goodwill - reflecting IP like Call of Duty, entry into mobile gaming, and the potential to supercharge Xbox Game Pass.
- **Deferred Revenue:** money received from a customer before the service is delivered. A company that sells a \$120k annual contract upfront can only recognise \$10k per month in revenue. That directly affects the P&L.
- **Intellectual Property / IP:** an intangible asset - software, patents, brand - that exists but cannot be physically touched.

One question worth sitting with: you have heard "people are our biggest asset." Are they, by the accounting definition used here? Current finance and accounting practices do not account for Human Capital. That is an opposing view worth holding alongside the Finance lens.

8. Art of Estimation and Cost Modelling (TCO / ROI)

There is so much estimation involved in finance, that one tends to completely ignore the fact that apart from real cash transactions, everything else is an estimate. Including profits in the income statement. As a manager you need to learn how to estimate. Remember, your estimate will always be wrong, the question is how wrong? It will depend upon the assumptions made.

You only get better at estimating by estimating and then comparing your actuals with the original estimation. This is true for any form of estimate. We estimate every day. How long it will take me to get ready and be out of the door? How long is the ride to work going to be? Over a period of time, or a long range, there are overs and unders that you have to account for. Just noticing when you are estimating something and how accurate or inaccurate it turns out to be helps with better estimation over time. Are you someone or now someone who mostly over-estimate their capabilities and under-estimate how long something will take? Check the assumptions made in those estimates. You may be surprised.

So, you have been asked to prepare a cost model for a project and show the Total Cost of Ownership (TCO), or if it was a business case, the Return on Investments (ROI). Firstly, when you hear vendors or suppliers use the terms lower TCO and higher ROI, tune your brain's BS-o-meter to reject these outrightly. For sh** and giggles, you can put it through [BlaBlaMeter - Bullshit detection tool](#). Secondly, ALL TCO, ROI, Cost Models will be wrong. You can spend an enormous amount of time correcting it. Use the Pareto Principle (80-20 rule), focus on the areas that have the biggest impact. Don't get into the trap of penny wise, pound foolish, or how long is a piece of string!

So, what is **TCO**? Technically, it is the total cost to own something over a period time. What is the TCO of a car, that you may have bought? First step - define the timeframe. TCO over how long, usually it is the useful life. Say, if you want to keep the car for 10 years, consider all of these, over a 10-year period:

- Cash paid upfront (Actual)
- Interest payments if any money was borrowed (Estimated based on an assumed interest rate)
- Maintenance costs (Estimated)
- Fuel costs (Estimated, based on an estimated annual distance traveled)
- Any other costs (storage, parking, insurance etc.)

So, if it is so much estimate why is it useful? To make a comparison with other options. It could be another car. It could be another mode of transport altogether. In comparison, the assumptions matter a lot. This is where TCO's can be created to reflect the desired option as the best option. Change one of the variables and number changes. As a manager, when you receive a

TCO, it helps you to understand what is that TCO made up of what is hiding underneath. When you are the creator of the TCO, check your biases. Are you somehow favouring the option you (or your boss) desires? State your assumptions clearly. The last thing you want is someone challenging the validity of TCO.

Here are some of the things I consider when creating a TCO or a cost model for an IT project or a purchase:

Consideration	What to Watch
Time Period	This is the most significant consideration. A 5-year TCO can be considerably different than a 7-year TCO. Most hardware and software have 5-6 year life, a longer TCO helps understand the cost of refresh, or extended support.
Purpose	What is the TCO going to be used for? Comparison TCOs require less rigour than a TCO that you need for a business case. Such TCO will include help from Finance professionals to include inflation adjustments, cost of capital, any other implications.
Cost Elements	What are the various cost elements that are to be included. List down every possible cost element that will influence the TCO, if those costs are zero, you can remove them. Consider which costs are fixed, and which are variable. Which costs considered as Capex and which could be Opex.
Assumptions	Note down assumptions for costs that you have estimated. This is the single most important thing that will help you either refine or defend your TCO if challenged.

I have included a [sample TCO model](#) that you can use as a basic template and create your own templates for future use.

ROI - Return on Investment

So where does **ROI** or **Return on Investment** fit in? You may have heard questions like, what is the ROI of the project and so on. How does it differ from a TCO? The keyword here is **Return**. There is an expectation, that the project or investment will generate more revenue and profit in return of the investments made. Like TCOs ROI can lie and can be shown to be artificially high or low, depending upon if you want to go ahead with a project/investment or shelve it. The ROI must stack up against other forms of guaranteed returns that one might get if the money is invested there. E.g. if your projects one time cost was \$10m, and instead of investing in the project you had left the money in a bank with 4% interest. At the end of 5 years, your \$10m would have generated \$2.16m just sitting in the bank, pre-tax. Your project/ investment must provide better returns than this, else leave the money in the bank.

Another concept to know is **break-even**. It is good to understand when you start to break-even, i.e. you would have recovered all the investments made, and whatever income is being generated is surplus/profit. In the above example, if by investing \$10m, you are able to generate \$2.5m a year of additional net profit (not revenue), you breakeven is 4 years. BTW, this is very simplistic,

for the purpose of illustration. It does not include things like NPV or Net Present Value etc. A dollar in hand now is worth more than a dollar in future.

The Building Blocks of ROI

Concept	Plain English	Example
Future Value (FV)	What today's money is worth at a future date.	\$10m at 4% for 5 years = \$12.16m
Present Value (PV)	What future money is worth today.	\$500k in 5 years at 4% = \$410,963 today
Required Rate of Return (RRR)	The minimum return before an investment is worthwhile - the hurdle rate.	Must beat the bank rate plus a risk premium
Break-even	When cumulative net returns equal the total investment.	\$10m invested, \$2.5m net profit/year: break-even at 4 years

Future Value (FV): In the above example, \$12.16m was the future value of \$10m, after 5 years, assuming a 4% interest rate. Note, it is an assumption that the interest rate will be 4% and never change in 5 years. When you are calculating FV over a longer term, say 30 years, it is trickier. How can you predict interest rates over 30 years? This is where overs and unders will come into picture. In your analysis, you must include all the assumptions for your growth rate.

Present Value (PV): This is the reverse of Future Value. If an investment or project will generate revenue or cash flow of \$500,000 in 5 years, its PV will be much less than that today. There are PV calculator in most spreadsheets and [online](#). Using a 4% interest rate, it comes to \$410,963.55. This implies the \$500K earned in five years' time is worth \$411k today. Note again, there are two assumptions here - future cash flow or revenue, and the interest rate. Change one or both and your PV changes.

Required Rate of Return (RRR): Remember in the example above, where I questioned when does it make sense to invest or leave the money in the bank? Every company has an RRR or the hurdle rate, which the investment must overcome, so that it is a more worthwhile investment. Usually, it is not just the bank savings rate, or wholesale rates. It is derived based on many factors. These factors include opportunity cost and risks involved. For an investment to be considered it is expected that the RRR is higher than the cost of capital or cost of funding the investment.

This is all good for scenarios where the money is invested for more revenue therefore more profits, or reduce costs, therefore more profits. Ask anyone who has to explain the ROI for spending money where it does not fit the "more profit" boundary. Are you wondering what could that be? **Risk avoidance.** Think about ROI for these:

- **Cybersecurity** - We all know it is a huge risk. The cost of privacy breaches, recovering from ransomware attack etc. is tremendously high. There is no guarantee that any investments in cybersecurity will make an organization 100% secure against cyber-threats, however not investing in it is not an option, anymore.
- **Sustain the operations** - Those who have worked in the "back of the house" or "engine room" or "where real work happens". Ask them. They will tell you how hard it is to get money to keep things running.
- **Other Risks** - If you have worked in the healthcare industry, you will probably understand what is "clinical risk". This is where there is a chance that someone could lose their life or a procedure could go horribly wrong. Similarly, every organization state their risks in a Risk Register, which is shared and discussed at leadership and board levels.

However, these investments are made, and this is where a finance savvy leader becomes very useful. The art of articulating the risks, applying notional costs and directly preventable cost blow-ups or predicting lost revenue is useful. The ROI model does not change, but you use projected numbers, of course by stating your assumptions. Risk is a huge lever, and organisations do spend a lot of money to avoid certain risks. How do you know what they are? Ask your friendly finance partner if they can share some snippets of the company Risk Register which could help you build a case.

I won't go into the detailed calculations of ROI and various methods. There are various online sources you can use, or better, ask your favourite AI tool to help you prepare one, based on your project. If you work in the public sector or social investments, it gets even harder to write a business case to justify the investments, and it is a totally different ballgame than private sector. Check out the resources at the bottom in Section 14 (Further Reading and Resources).

9. Budgeting and Forecasting

Budgeting and forecasting are critical elements of any project or team. Every team and every project have a budget allocated. Try exceeding the budget and you will know that somebody is tracking it. Usually, budgets are allocated based on financial year, and for a long running project it may span across multiple years. Team budgets are simpler. They consist of staff salary, perks, holiday pay etc. which are pretty fixed throughout the year. The variable components are travel expenses, trainings or any other costs. Usually, your team's budget is set by Finance. It is slightly different if you run a professional services team where your team is "billable", and your team charges internal or external customers for their time.

Every team and every project has a budget. Team budgets cover staff salary, perks, and holiday pay - mostly fixed through the year. Variable components include travel, training, and discretionary costs.

Project budgets are based on an agreed business case and scope, estimated through cost modelling. Track spend against budget throughout. No project sponsor wants to hear about a budget overrun after the money has already gone.

If you are responsible for IT, then you will also need to budget for any new software, hardware, upgrades, maintenance etc. Many companies use previous year's actuals as next year's budget, some set reduction target based on previous year. Some companies use a technique called "**zero based budgeting**". In this method, every expense has to be justified, assuming the base was zero. It is a very intensive technique and challenges every cost. It is also a pain in you-know-where. For everyone. However, it is extremely useful if your department or organisation really needs to cut costs.

Project budgets are slightly different. They are based on an agreed business case and scope and are usually estimated based on cost modelling. Since they are mostly estimates, it is important to track the spend against the budget. Every good project manager knows how important budget tracking is. No project sponsor wants to hear about budget overrun after you have run out of budget.

Internal Labour Rates

Should internal resources be costed in a project budget? It depends. It depends upon the organisation. I have worked in both types where they are and where they aren't. Where they are costed, it is usually because their cost needs to be accounted for as a capital expenditure or charged back to a customer(billable). They have a set internal labour rate, which is used to convert their time spent to a dollar value.

It is not a bad thing to do it this way as it provides a true cost of the work. It also covers the opportunity costs, as they would be doing something else otherwise. This labour rate also includes something called **overheads**. Overheads include cost of facilities, hardware software, management, administration etc. It ranges from 20-50% over and above the salary.

"Use It or Lose It"

Many companies follow the "Use or lose it" model. If you have not used up your budget before the end of financial year, you lose it, and it goes back into the big pot. This drives some really bad behaviour. I have seen some very interesting spends just before the end of financial year. A lot of stuff is bought that probably was not needed, just because someone does not want to lose the budget. In many companies, especially in public sector, budgets do get carried forward to the next year, through a transfer process. How do you stop getting into this situation. **Forecasting** comes to the rescue.

Forecasting

Forecasting is a process where you layout the spend month by month against the overall budget. This is very useful for project budgets or professional service teams. It gives you a run rate or burndown view of the spend. You can predict if you are going to be under or over budget for the year. Being under budget is not that much of problem, unless you are way off the mark.

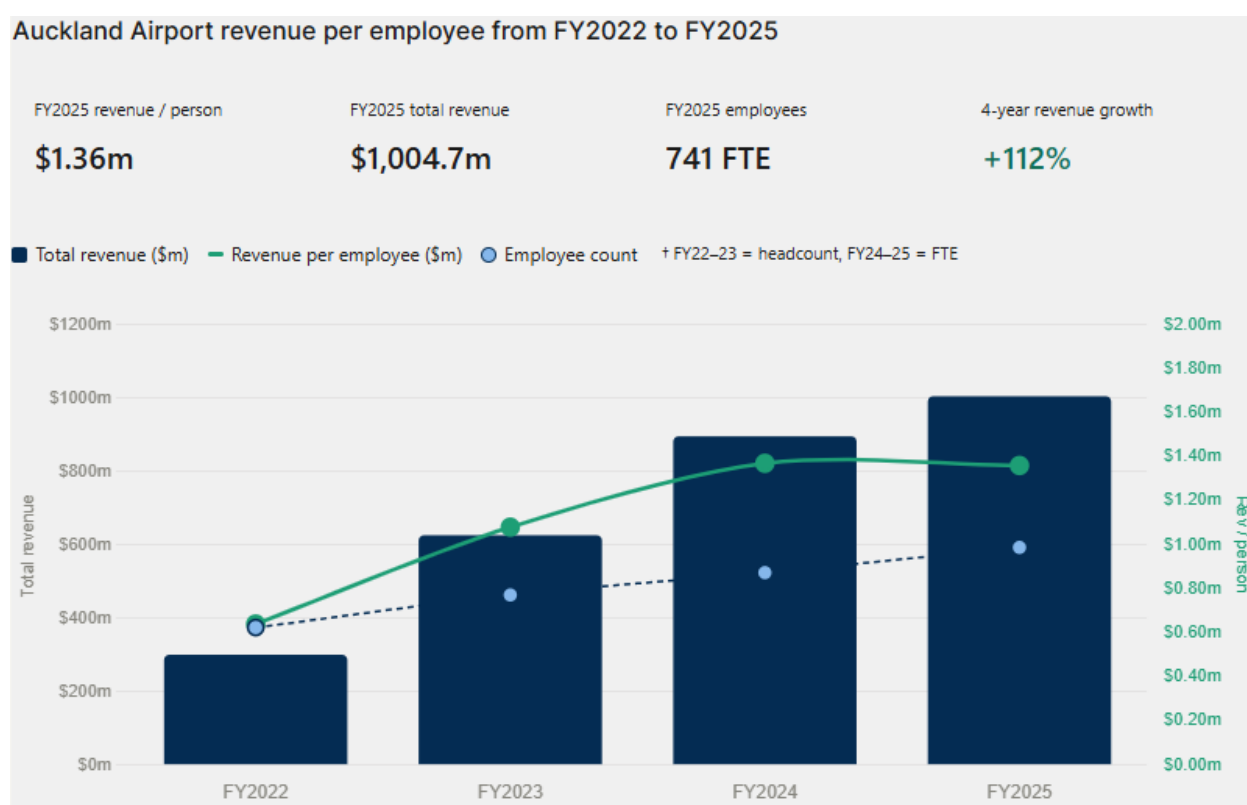
Suppose you estimated that your project will cost \$1m, and you actually only spent \$300k, you will have a lot explaining to do for your over estimation and planning. Finance loves it when your Actuals are equal to or close to forecast. Don't just make it up though! Remember Rita, my finance manager I introduced in the beginning? Her telling me off was an inspiration for me to get my finance knowledge better and get forecasts a bit more realistic than made up numbers.

10. Metrics and Ratios

Since it is all about numbers, there are bound to be metrics and ratios. Most metrics are used in the investing world but are pretty useless to the average employee or leader. Here are four that I have found very useful, and usually a trend is more useful than a point in time number.

Revenue per FTE

This is one of my favourites. You will not find this in any annual report. You have to derive and track it yourself. The reports have both the data points - revenue and FTE, and if you track it over the years, you can gauge the organization's fitness. It is also useful for comparing it with a similar company, locally or globally. It should be stable or increasing (more revenue for less FTE). If you see the signs that revenue is declining and FTE increasing, there is a problem looming. The only caveat is how contractors are treated in the FTE calculations. In many organizations, any contractor more than 12 month is correctly counted as an FTE.



Source: Auckland Airport Annual Report FY2025

Revenue per Customer (ARPU)

Similar to Revenue per FTE, this is calculated based on the overall customer base. In the telco world it is commonly known as ARPU (Average Revenue per User). It is crucial in SaaS or end user-based organizations and shows growth or decline.

Staff Costs to Revenue %

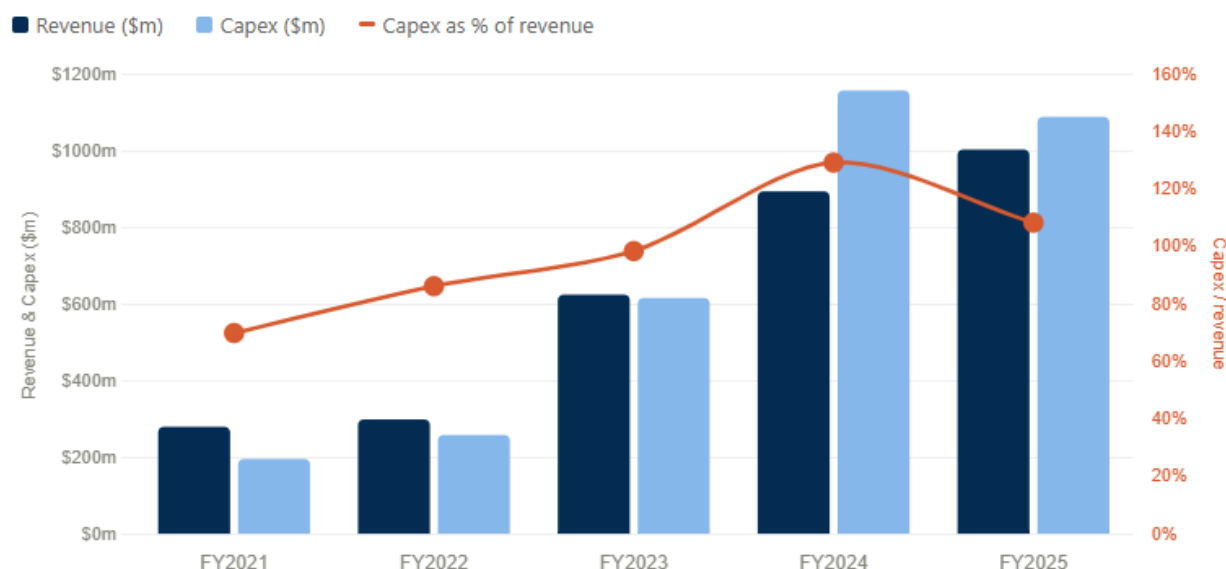
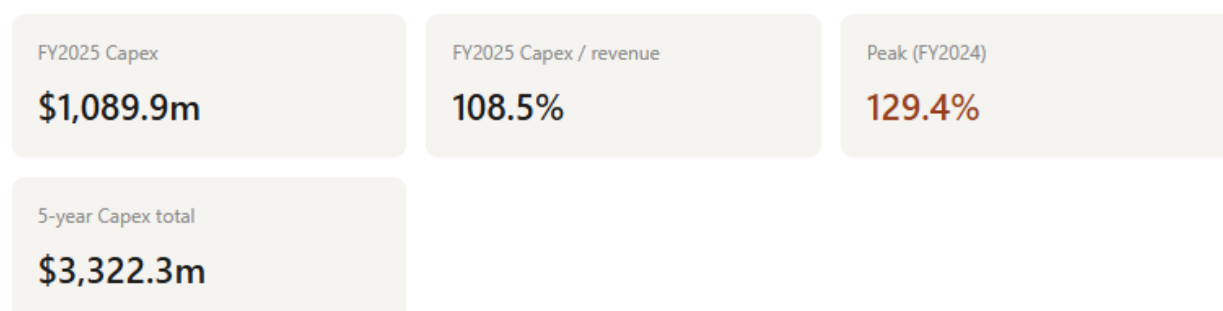
Another interesting ratio, and it varies industry by industry. In a labour-intensive industry, such as professional services, it will quite high (60-70%), whereas in infrastructure heavy industry it will be low (5-10%). Good for comparison and trend over years.

Capex to Revenue %

As you would have learned by now, capex is generally investment activities, for future growth or savings. Depending upon the industry, it is not unusual to find 15-20% of revenue being invested in the business. If you have been following the Auckland Airport numbers, you'd notice that it sits at 108.5% for 2024-25, which is extraordinarily high, mainly due to the deliberate capital builds. It has been like this for a few years due to capacity upgrades. The shareholders will have an expectation that this investment will pay off once all the build work is complete.

Capex as % of revenue: FY2021 to FY2025

Auckland Airport | Source: FY2025 Annual Report five-year summary p. 202, 205



Source: FY2025 Annual Report — five-year summary p. 202 (revenue) & p. 205 (capex)

11. Lease vs Buy

If you are ever involved in some form of procurement activity in your career, you will come across this dilemma. Should you lease or buy? You guessed it, the right answer is “It depends”. We all have our favourites that we default to. Mine is *Buy*, and *Lease* only if *Buy* is not possible (for whatever reason). I know of individuals and businesses that are entirely opposite, and it totally makes sense for their situation. The trick here is to be completely open minded towards both options, and choose the one that makes sense for now and future. Apply principles of second order thinking (more on this in another post), and not just what makes sense right now.

When Buying Makes Sense

In the long run buying is mostly cheaper than leasing. Most organisations resort to buying if there is cash and Capex to spend. The benefit is that such assets could be depreciated, and therefore the cost spread. A general rule of thumb is to buy if:

- the asset can appreciate (E.g. Land and buildings)
- usable beyond their depreciation (useful) life. E.g. machinery, infrastructure, most computer equipment
- the TCO over time beats the lease costs
- there is capital available and you don't need to use cash elsewhere

When Leasing Makes Sense

So, if leasing is more expensive than buying, why bother? Usually, the leasing company will want to recover their costs in the first half of the lease term. Lease terms will depend upon asset type. It is a very common practice of leasing laptops and printers. Laptops usually have a 3-5 year lease term. The benefits of leasing laptops are that you don't have to buy another one every 3-4 years, and you just get a new laptop every few years. Other common leased items are building (rental leases) and cars. The benefits of leasing are:

- Cash flow matters more than ownership
- Predictable costs and no capex shock every few years (long term leases are an exception).
- You need to upgrade frequently to stay current

Let's take a practical example. You can buy 10 laptops at the cost of \$1500 each. These laptops could last you for at least 4 years and then you will need to replace them. Alternatively, you could lease them at \$60 per month on a 36-month lease term, and you will get a new laptop at the end of term after 3 years. You must pay a penalty for breaking the lease earlier, usually it is remaining term plus a fixed break fee. This is how it looks over a six-year period, ignoring any depreciation or resale value of the laptop (I'd donate the laptop to a charity such as [Recycle a Device](#)).

Practical Example - 10 Laptops over 6 Years

	Buy	Lease (\$60/unit/month)
Upfront cost	\$15,000 at Year 0	\$0
Refresh / renewal	\$15,000 at Year 4	New devices at Year 3 renewal
Annual outflow	\$0 (after purchase)	\$7,200/year
Total over 6 years	\$30,000	\$43,200
Predictability	Lumpy - big spikes every 4 years	Predictable monthly cost
6-year saving if buying	\$13,200	

Cumulative lease cost surpasses the purchase cost after two years. Buying wins on total cost over 6 years. If you only need the laptops for two years, leasing costs less.

Breaking a lease early usually incurs a penalty, typically the remaining term payments plus a fixed break fee.

12. Conclusion - Show Me the Money Honey!

In my role I deal with customers, internal teams, and stakeholders. They have all brilliant ideas. Not all ideas can be implemented. Everyone cannot end up being happy. Ultimately it becomes a case of "Show me the money honey".

The world revolves around money. Money is a very interesting concept. On a philosophical level, it is a myth, it is a fiction, human created concept. There is only ~\$8 trillion USD worth of physical currency in circulation globally, however, the money supply runs in hundreds of trillions of dollars.

Organisations, both for profit and not-for-profit need leaders who are finance and commercial savvy across the various level of organisation. A financially intelligent organisation makes better decisions for its customers and stakeholders. A financially savvy leader is better poised for growth. The earlier you grasp this the bigger the advantage is for you. Every decision you make has a financial consequence, including hiring and choosing a product. You don't need to love finance or numbers, but you must understand it, respect it.

Five Things to Do This Week

1. **Read your company's annual report.** Start with the Statement of Earnings and the revenue breakdown. If it is not publicly available, ask your Finance team what they can share. Then ask them to walk you through it.
2. **Find a Finance mentor.** Not a course. Not a YouTube video. A real person in your organisation who will sit with you, answer your questions, and call you out when your numbers do not add up.
3. **Build a TCO for the next purchase or project you are involved in.** It does not have to be perfect. State your assumptions. Then compare it with what actually gets spent.
4. **Track your team's budget every month.** Build a simple forecast. Know whether you are heading for an over- or underspend before Finance tells you. Rita does not enjoy surprises and neither will your CFO.
5. **Calculate your organisation's Revenue per FTE.** The data is in the annual report. Do it for this year and last year. That one number will tell you more about organisational health than most dashboards will.

13. Glossary

Key terms introduced in this guide, in alphabetical order. Section references are in italics.

- **Accounts Payable / A/P** (*Sec 6, 7*) - The business function that handles paying what the company owes to suppliers, staff, and others.
- **Accounts Receivable / A/R** (*Sec 6, 7*) - The business function that ensures customers and debtors pay the company on time.
- **Amortization** (*Sec 4, 5*) - Like depreciation, but applied to intangible assets such as software licences or intellectual property. An accounting entry only; no real cash moves.
- **Annual Report** (*Sec 1*) - A public document, usually published yearly, that shows how a company made money, what it spent, and what it owns and owes. Required for public listed companies and government agencies.
- **ARPU – Average Revenue per User** (*Sec 10*) - Total revenue divided by total customer or user count. Common in SaaS and telco. Shows growth or decline in customer value.
- **Asset** (*Sec 3, 4, 7*) - Anything a business owns that has value: buildings, equipment, software, cash, intellectual property, or anything that can be converted to cash.
- **Balance Sheet** (*Sec 7*) - A snapshot, at a point in time, of what a business owns (assets), what it owes (liabilities), and what it is worth (equity). Assets must always equal Liabilities plus Equity.
- **Bottom Line** (*Sec 1, 5*) - See Net Profit. The final profit figure after all costs, interest, depreciation, and tax have been deducted from revenue.
- **Break-even** (*Sec 8*) - The point at which the total net return from an investment equals what was spent on it. Any returns after this point are surplus.
- **Budget** (*Sec 9*) - The amount of money allocated to a team or project for a financial year, usually set by Finance. Exceeding it gets noticed quickly.
- **Capex / Capital Expenditure** (*Sec 3, 4, 7, 9, 11*) - Money spent to improve or acquire an asset that will last longer than a year and is required to run the business, or that will deliver sustained revenue or reduced costs over time. Not the same as day-to-day spending.
- **Capital** (*Sec 3*) - Money invested in the business to fund assets or growth. Never free; every source of capital carries a cost, whether interest on debt or expected dividends for shareholders.
- **Cash Flow** (*Sec 6*) - The movement of real money in and out of a business, broken into three parts: operating (day-to-day), investing (capital spend), and financing (borrowing or raising funds).
- **COGS / Cost of Goods Sold** (*Sec 5*) - The direct costs tied to producing a product or delivering a service: raw materials, direct labour, and manufacturing overheads. Indirect costs like backend IT are not included.
- **Cost Centre** (*Sec 1*) - A part of the business that incurs costs but does not directly generate revenue. IT departments are often classified this way.
- **Cost of Capital** (*Sec 3, 8*) - The price a business pays for the money it uses. Borrowed money costs interest. Shareholder money costs dividends or expected share price growth. Often overlooked but it changes the whole picture.

- **Deferred Revenue** (Sec 7) - Money received from a customer before the service has been delivered. It sits as a liability on the balance sheet until the service is performed. Common in subscription and SaaS businesses.
- **Depreciation** (Sec 4, 5, 7) - The annual reduction in the book value of an asset, spread across its useful life. An accounting entry only; no cash changes hands. This is why Finance will approve a \$500k software purchase over five years but not in one hit.
- **Diminishing Value** (Sec 4) - A depreciation method where the asset loses more value in its early years and less as time goes on. Like a new car that drops most of its value in the first year.
- **EBITDA** (Sec 5) - Earnings Before Interest, Taxes, Depreciation, and Amortization. A widely used profitability metric, but not defined in any accounting standard. Can be manipulated and can mask heavy debt. Take it with a grain of salt.
- **Equity** (Sec 3, 7) - The net worth of a business after subtracting liabilities from assets. Includes share capital (at the original issue price, not market price) and retained earnings.
- **FinOps** (Intro) - A practice for managing and optimising cloud costs in an organisation. Sits at the intersection of Finance, technology, and operations.
- **Forecast** (Sec 9) - A month-by-month projection of spend against the budget. Helps you see early if you are heading for an over- or under-spend before it becomes a problem.
- **FTE / Full-Time Equivalent** (Sec 10) - A measure of workforce size that converts part-time and casual staff into full-time units for comparison and costing purposes.
- **Future Value / FV** (Sec 8) - What a sum of money will be worth at a future date, factoring in a growth or interest rate. Used in investment and ROI calculations.
- **GAAP / Generally Accepted Accounting Principles** (Sec 5) - The standard accounting rules companies must follow when reporting. EBITDA is a non-GAAP measure, meaning companies can calculate it however they like.
- **Goodwill** (Sec 7) - An intangible asset on the balance sheet, representing the premium paid when acquiring another business above the fair value of its identifiable net assets.
- **Gross Margin %** (Sec 1, 5) - Revenue minus Cost of Goods Sold, divided by revenue, as a percentage. Shows how much of each dollar earned is kept before other operating expenses, interest, and tax.
- **Gross Profit** (Sec 1, 5) - Revenue minus COGS. Tells you how efficiently the business produces its goods or services. Low gross profit means little room for any other costs.
- **Intellectual Property / IP** (Sec 7) - An intangible asset: software, patents, brand, or other value that exists but cannot be physically touched. Appears on the balance sheet.
- **Leave Liability** (Sec 7) - The financial obligation sitting on a company's books for employees' accumulated but unpaid annual leave. It is a real liability; when someone leaves, the company pays it out in cash.
- **Liability** (Sec 7) - What a business owes: debts, accounts payable, deferred revenue, leave liability, borrowings, and anything else the business is obligated to pay.
- **Net Profit / PAT – Profit After Tax** (Sec 5) - The final figure after all costs, interest, depreciation, and tax have been deducted from revenue. When someone says "this will impact the bottom line," this is what they mean.
- **NPV / Net Present Value** (Sec 8) - A way to express what a future stream of money is worth in today's terms. A dollar received in five years is worth less than a dollar today, because today's dollar can be invested.

- **Opex / Operational Expenditure** (Sec 2, 5, 9) - Money spent to run the business day to day. Includes salaries, rent, maintenance, travel, and most cloud service costs. Real money leaving the bank.
- **Overhead** (Sec 9) - Costs added on top of salary when calculating an internal labour rate: facilities, hardware, software, management, and administration. Typically adds 20–50% on top of the base salary.
- **P&L / Profit & Loss** (Sec 1, 5, 12) - A financial statement showing revenue, costs, and the resulting profit or loss over a period. Also called the income statement. The most common financial document a manager will encounter.
- **Prepaid Opex** (Sec 2) - Opex paid upfront in a lump sum for multiple years, then spread evenly across each year in the accounts. Common for multi-year support contracts.
- **Present Value / PV** (Sec 8) - The current worth of money that will be received in the future. Because money can earn a return, future money is worth less than the same amount today.
- **Profit Centre** (Sec 1) - A part of the business that directly generates revenue. The opposite of a cost centre.
- **Required Rate of Return / RRR** (Sec 8) - The minimum return a company expects before an investment is considered worthwhile. Also called the hurdle rate. Must beat simply leaving the money in the bank.
- **Residual Value** (Sec 4, 11) - The estimated worth of an asset at the end of its useful life. Used in the depreciation formula. For a donated laptop it is zero; for a piece of machinery it may still have scrap value.
- **Retained Earnings** (Sec 7) - Profits kept inside the business and reinvested, rather than paid out as dividends. Sits within equity on the balance sheet.
- **Revenue** (Sec 1, 10) - The total money generated by the business from its products and services before any costs are deducted. The top line.
- **Revenue per FTE** (Sec 10) - Total revenue divided by the number of full-time equivalent employees. A useful gauge of organisational efficiency not found in any annual report; you have to calculate it yourself.
- **ROI / Return on Investment** (Sec 8) - A measure of whether the financial return from an investment justifies its cost. Like TCO, ROI models will always be wrong; the question is how wrong.
- **Straight-Line Depreciation** (Sec 4) - A depreciation method where the asset loses the same fixed amount of value each year across its useful life.
- **TCO / Total Cost of Ownership** (Sec 8) - The full cost of owning or running something over a defined period, including upfront spend, ongoing costs, and anything that is easy to forget. Always an estimate.
- **Top Line** (Sec 1) - Revenue. The first line on the income statement, before any costs are taken out.
- **Useful Life** (Sec 4) - The number of years an asset is expected to be in active use. Determines how the depreciation is spread. Technology is typically 3–5 years; buildings and infrastructure can be 30–50 years.
- **Variance** (Intro, Sec 9) - The difference between what was forecast or budgeted and what actually happened. Rita's whole year-end stress in one word.
- **Zero-Based Budgeting** (Sec 9) - A budgeting method where every expense must be justified from scratch each year, starting from zero rather than from last year's numbers. Intensive, uncomfortable, and very effective at cutting costs that no longer serve a purpose.

14. Further Readings and Resources

Topics to Explore with Your Finance Team

These are too technical for a Finance 101 guide and require deeper finance knowledge:

- Working Capital
- Taxes - corporate tax, GST, and the difference between tax and accounting treatment
- Long-Term Leases (IFRS 16)
- Inventory and Stock Valuation
- Shares, Pricing, and Capital Markets

Recommended Books

- **Financial Intelligence, Revised Edition: A Manager's Guide to Knowing What the Numbers Really Mean** - Karen Berman, Joe Knight, John Case
- **The Psychology of Money** - Morgan Housel

Other References and Resources

- [How Financial Accounting Screws Up HR](#) - Harvard Business Review
- [The Problem with Accounting for Employees as Costs Instead of Assets](#) - Harvard Business Review
- [Guide to Social Cost Benefit Analysis](#) - The Treasury, New Zealand

Disclaimers and Notes

I am not a finance professional. I would not take technology advice from a finance professional. Therefore, I do not expect myself to give any financial advice. These are things learned over the years working in many organisations.

I have used Claude AI to help with the analysis of Auckland Airport Annual Report data and to produce the HTML charts and tables in this article.

Acknowledgements

Thank you, Gill Mahony, for reviewing the correctness of the content, your feedback, and valuable inputs. Thank you to all the Finance colleagues and mentors over the years who took the time to explain things without making me feel like I should already have known.