

Cash flow statement

Your cash flow statement is just as important as your profit and loss statement. Businesses run on cash—there are no two ways around it. A cash flow statement is an explanation of how much cash your business brought in, how much cash it paid out, and what its ending cash balance was, typically per-month.

Without a thorough understanding of how much cash you have, where your cash is coming from, where it's going, and on what schedule, you're going to have a hard time running a healthy business. And without the cash flow statement, which lays that information out neatly for lenders and investors, you're not going to be able to raise funds.

The cash flow statement helps you understand the difference between what your profit and loss statement report as income—your profit—and what your actual cash position is.

It is possible to be extremely profitable and still not have enough cash to pay your expenses and keep your business afloat. It is also possible to be unprofitable but still have enough cash on hand to keep the doors open for several months and buy yourself time to turn things around—that's why this financial statement is so important to understand.