**AREC 213**

**Fall 2013**

**Cash Flow Definitions**

**Cash on hand**

The funds you have that are immediately available to be spent.

**Cash receipts**

The cash you have received for your goods and services.

**Cash paid out**

Your business's total cash payments, including the money spent on raw materials and operating expenses.

**Understanding and Expanding Cash Flow**

For small businesses, cash is king. You need it to start, operate, and expand your operations, but many small business owners often have trouble managing and maintaining appropriate levels of cash. Inaccurate cash flow statements - or lack of available cash - can affect not only your business's everyday operations, but also impacts outside factors like loan eligibility. Read on to learn how understanding your cash flow trends can help you take control of your business finances.

**Cash Flow 101**

Cash flow is the movement of money in and out of your business.

* Inflow comes from operations such as the sale of goods and services, loans, lines of credit, and asset sales.
* Outflow occurs during operations such as business expenditures, loan payments, and business purchases.

It's crucial to balance these two figures and maintain a reasonable balance of cash at all times. An effective cash flow system will help you manage funds to cover operational costs and bills and you help to foresee potential problems in the future. Inaccurate cash flow statements - or even lack of available cash - can affect not only your business's everyday operations, but also outside factors like loan eligibility.

Profit and loss statements and income statements can be used to determine projections for future cash flow trends of your business. These financial documents are instrumental in making cash flow projections, but a cash flow statement serves an important and independent purpose - it accounts for *non-cash items and expenses* to adjust profit figures. Cash flow statements display not only changes over time, but also available net cash.

**Develop a Cash Flow Statement**

Cash flow statements are generally separated into three parts:

* *Operating Activities* - This section evaluates a business's net income and loses. By assessing sales and business expenditures all income from non-cash items is adjusted to incorporate inflows and outflows of cash transactions to determine a net figure.
* *Investment Activities* - This section reports inflows and outflows from purchases and sales of long-term business investments such as property, assets, equipment, and securities. For example - if your bakery business purchases an additional piece of kitchen equipment, this would be considered an investment and accounted for as an outflow of cash in this section. If your business then sold equipment that was no longer needed, this would be considered an inflow of cash and accounted for in this section.
* *Financing Activities* - This section accounts for the cash flow trends of all money that is related to the financing of your business. For example - if your small business was issued a loan from the Microloan Program to assist with start-up funding, the loan itself would be considered an inflow of cash. Loan payments would be considered an outflow of cash, and both would be recorded in this portion of the cash flow statement.

**Ask for Help**

Making cash flow projections and computing cash flow statements can be confusing if you've never managed those finances before. Asking help from a financial expert, such as your business account, is always a reliable option. Another free and valuable resource are local small business experts such as SCORE - who are trained and skilled in managing finances and cash flow cycles. Don't be afraid to ask for help - it may end up helping you avoid major financial problems in the future!

**For additional information check out the Small Business Administration's comprehensive guide on Understanding and Controlling Cash Flow.**

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