

Cash Flow - The Pulse of Your Business

Many small business owners do not fully understand their cash flow statement. This is surprising, given that all businesses essentially run on cash and cash flow is the lifeblood of your business.

Some business experts even say that a healthy cash flow is more important than your business's ability to deliver its goods and services! That's hard to swallow, but consider this: if you fail to satisfy a customer and lose that customer's business, you can always work harder to please the next customer. But if you fail to have enough cash to pay your suppliers, creditors, or employees, you're out of business!

What Is Cash Flow?

Cash flow, simply defined, is the movement of money in and out of your business; these movements are called *inflow* and *outflow*. Inflows for your business primarily come from the sale of goods or services to your customers. The inflow only occurs when you make a cash sale or collect on receivables, however. Remember, it is the cash that counts! Other examples of cash inflows are borrowed funds, income derived from sales of assets, and investment income from interest.

Outflows for your business are generally the result of paying expenses. Examples of cash outflows include paying employee wages, purchasing inventory or raw materials, purchasing fixed assets, operating costs, paying back loans, and paying taxes.

Note: An accountant is the best person to help you learn how your cash flow statement works. Please contact us and we can prepare your cash flow statement and explain where the numbers come from.