

Everything Your Small Business Needs to Know About Cash Flow

So you started a business. Congrats! But when it comes to running a business, some financial things can get a bit, well, overwhelming. One of those pesky financial things is cash flow.

Curious about what cash flow is, and why you need to be on top of it? Luckily, you've got us to guide you. In this guide, we tell you everything your small business needs to know about cash flow.

HERE'S WHAT YOU'LL LEARN

What cash flow is
(and other important
financial terms)

Why you need to
track and monitor
your cash flow

How to track your
cash flow (along with
a cash flow statement)

What is cash flow?

Cash flow is the movement of money in and out of your business. When customers buy a product or service, that brings money into your business. When your business buys inventory or supplies to run the business, that's money going out. Think of it like your business's heartbeat—you want a strong and steady flow.

Don't get it confused with...

Here's what cash flow isn't:

Revenue

Revenue is the total income generated by your business. It's the money earned from selling your goods or services. It's often the starting point for assessing whether a company is financially healthy.

Profit

Profit is what's left after you've paid all the bills. Sales are great, but profit is your reward for all the hard work. To find your profit, take your revenue and subtract your business expenses.

What makes up your cash flow?

Cash outflows (Accounts receivable)

The opposite of inflows is cash outflows—the cash leaving your business. Paying suppliers, salaries, and buying that fancy new office chair—these are outflows.

Expenses

This is basically everything that isn't inventory. Payroll, kitchen equipment, rolling racks, paper and pens, etc.

Cash inflows (Accounts receivable)

This is the cash coming into your business. Sales, loans, investor money—it's all about the cash making its way to you.

Inventory

These are the goods (or parts of the goods) you sell. If you own a clothing store, this is the clothes you sell. If you run a restaurant, this is the food you buy.

Why you need to track your cash flow

Understanding your cash flow is like having a crystal ball for your business. It helps you:

- ✓ **Plan for growth:**
You'll know when it's safe to invest in new locations or new team members.
- ✓ **Avoid shortfalls:**
No one likes nasty surprises. Knowing your cash flow helps avoid them.
- ✓ **Make smart decisions:**
With a clear view of your finances, every decision is made with full confidence.
- ✓ **Borrow from investors and banks:**
If you head into a bank for financing, you're going to need to know—or at least have a really good prediction of your cash flow.

How do you track your cash flow?

Tracking your cash flow is key to ensuring you have a well-informed view of your company's finances.

- **Stay organized:**
Keep a meticulous record of all money coming in and going out. Software can be your best friend here.
- **Regular reviews:**
Make it a habit to review your cash flow regularly. This way you're never caught off guard.
- **Forecasting:**
Try to predict your future cash flows based on past trends. It helps you plan and breathe easier.

Your biggest cash flow tracking asset?

A cash flow planner.

The goal? To help you stay liquid, avoid cash shortages, and make savvy financial decisions. Small businesses and start-ups are going to want a cash flow planner to help manage limited resources in those lean early years of business.

What is it?

A cash flow planner is a tool or system you can use to forecast and manage cash inflows and outflows over a specific period of time.

CASH FLOW PLANNER EXAMPLE

	Week 1	Week 2	Week 3
Opening cash balance	10,000	9,000	12,000
Total cash inflows	2,000	5,000	2,500
Cash sales	1,500	1,500	1,500
Accounts receivable	500	1,000	1,000
Other	0	2,500	0
Total cash outflows	3,000	2,000	4,000
Rent	800	800	800
Payroll	1,000	0	1,000
Accounts payable	1,800	1,000	2,000
Insurance and utilities	200	200	200
Cash forecast	9,000	12,000	10,500
Net change in cash	(1,000)	3,000	(1,500)

So, there you have it. An easy-peasy breakdown of what cash flow means for your business. Remember, understanding your cash flow isn't just about survival; it's about thriving. And that's what we want for you.

How can Homebase help? We're so glad you asked!

Ready to get your small business organized?

Check out our other resources and tools designed to make your business journey smooth and successful.

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