

Cash Flow



What is cash flow?

- *Cash flow* is money that moves in and out of a business during a specific time period.
- Cash flows into the business when customers pay for goods or services.
- Cash flows out of the business when the company pays employees, contractors, vendors, rent, utilities, etc. or when it purchases supplies and inventory.

Why is cash flow important?

- Cash flow management is the primary challenge facing small businesses.
- According to a U.S. Bank study, 82% of business failures are due to poor cash flow management.
- A *cash flow cycle* shows how cash flows through a business. The goal is to collect cash faster, and hold cash longer.
- When a business buys on credit, it keeps cash on hand to cover other expenses.

Cash Flow Game

Applesauce & Cider Company

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Income Statement vs Cash Flow Statement

A Profit and Loss statement (Income Statement):

- Measures revenues and expenses over a period of time
- Tracks profitability: whether the business is making a profit on what it sells

Cash Flow statement:

- Balance of cash received less the amount of cash paid out over a period of time
- Moving cash in or out of a business

Cash Flow Game: Income Statement

Tiana's Applesauce & Cider, Inc.

Sales	\$600,000	Monthly \$50,000
Raw Materials	(\$300,000)	(\$25,000)
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Gross Profit	\$300,000	\$25,000
Salaries	(\$144,000)	(\$12,000)
Rent	(\$24,000)	(\$2,000)
Vehicles	(\$12,000)	(\$1,000)
Insurance	(\$12,000)	(\$1,000)
Other expenses	(\$48,000)	(\$4,000)
Owner's Salary	(\$12,000)	(\$1,000)
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PROFIT	\$48,000	\$4,000

Cash Flow Game: Payment Terms

Customer Payment Terms		Supplier Payment Terms	
Customer #1	Net 30 Days	Supplier #1	Net 60 Days
	\$25,000 per month		\$12,500 per month
Customer #2	Net 90 Days	Supplier #2	COD
	\$25,000 per month		\$12,500 per month

Cash Flow Game: January

Purchases \$12,500 from Supplier #1

- *Net 60 Days – Pays March 1st*

Purchases \$12,500 from Supplier #2

- *COD – Pays Immediately*

Sales of \$25,000 to Customer #1

- *Net 30 Days – Collect February 1st*

Sales of \$25,00 to Customer #2

- *Net 90 Days – Collect April 1st*

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	
+ Collect from Customer #2	
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	\$0
+ Collect from Customer #2	
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	\$0
+ Collect from Customer #2	\$0
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	\$0
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	\$0
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: January

Beginning Cash	\$50,000
+ Collect from Customer #1	\$0
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	\$16,500

Cash Flow: February

Purchases \$12,500 from Supplier #1

- *Net 60 Days – Pays April 1st*

Purchases \$12,500 from Supplier #2

- *COD – Pays Immediately*

Sales of \$25,000 to Customer #1

- *Net 30 Days – Collect March 1st*

Sales of \$25,00 to Customer #2

- *Net 90 Days – Collect May 1st*

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	
+ Collect from Customer #2	
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$0
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: February

Beginning Cash	\$16,500
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$0
- Payment to Supplier #1	\$0
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	\$8,000

Cash Flow: July

Purchases \$12,500 from Supplier #1

- *Net 60 Days – Pays September 1st*

Purchases \$12,500 from Supplier #2

- *COD – Pays Immediately*

Sales of \$25,000 to Customer #1

- *Net 30 Days – Collect August 1st*

Sales of \$25,00 to Customer #2

- *Net 90 Days – Collect October 1st*

Cash Flow Game: July

Beginning Cash	(\$1,000)
+ Collect from Customer #1	
+ Collect from Customer #2	
- Payment to Supplier #1	
- Payment to Supplier #2	
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: July

Beginning Cash	(\$1,000)
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$25,000
- Payment to Supplier #1	(\$12,500)
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	

Cash Flow Game: July

Beginning Cash	(\$1,000)
+ Collect from Customer #1	\$25,000
+ Collect from Customer #2	\$25,000
- Payment to Supplier #1	(\$12,500)
- Payment to Supplier #2	(\$12,500)
- Fixed Expenses	(\$21,000)
Ending Cash	\$3,000

Let's review

- Tiana's Applesauce & Cider Company generated a six-month profit of \$24,000
- The business had a negative cash drain of \$51,000 over 5 months
- Cash flow management is important for business owners

Questions?

