

Mistake to Avoid

Not Preparing and Utilizing an Effective Cash Flow Statement

While an income statement can present a true picture of the operating results of your business, understanding what is happening with your cash flow is also critical and can help you with the day-to-day operation of your business. Managing your business without adequate cash flow to meet operating needs and to take advantage of marketplace opportunities can make life miserable.

Benefits of an Effective Cash Flow Statement

- You will better understand the day-to-day financial dynamics of your business.
- You will better understand the long-term financial dynamics of your business.
- You can anticipate upcoming needs.
- Preparing one will probably help you identify some ways to improve your cash flow.
- Your lender will probably require one.
- You can have some peace of mind.

Preparing a Cash Flow Statement

Most businesses prepare Cash Flow Statements at least annually and many prepare one each quarter. Here is a format that you may find helpful. You might want to start with one for the prior year to become familiar with the process and then start doing quarterly projections of your cash flow.

Line #		Prior year	Current year	\$\$\$ Increase/ Decrease	%'age Increase/ Decrease	Comments for lines
	Year ending					Enter the year
	Sources and Uses of Cash					
1	Net Income	\$	\$	\$	%	Enter your income
	Plus Non-Cash Expenses Included in Net Income					
2	Depreciation	\$	\$	\$	%	Enter as a positive. (Depreciation is a non cash expense)
3	Net change in accounts receivable	\$	\$	\$	%	Increases for the year are entered as negatives and decreases are entered as positives
4	Net change in accounts payable	\$	\$	\$	%	Increases for the year are entered as positives and decreases are entered as negatives
5	Net change in inventory	\$	\$	\$	%	Increases are entered as negatives and decreases are entered as

						positives
6	Net change in other accrued items	\$	\$	\$		% Increases in other accrued assets are entered as negatives and increases in other accrued liabilities are entered as positives
7	Net Cash Provided by Operating Activities	\$	\$	\$		% Add Lines 1 through 6
	Cash Flow From Investing Activities					
8	Purchase of capital assets	\$	\$	\$		% Enter as a negative
9	Sales of capital assets	\$	\$	\$		% Enter as a positive
10	Loans given by you	\$	\$	\$		% Enter as a negative
11	Loans repaid to you	\$	\$	\$		% Enter as a positive
12	Net Cash From Investment Activities	\$	\$	\$		% Add Lines 8 through 11
	Cash Flows From Financing Activities					
13	Debt reduction	\$	\$	\$		% Enter as a negative
14	Proceeds from borrowing	\$	\$	\$		% Enter as a positive
15	Proceeds from sale of equity	\$	\$	\$		% Enter as a

						positive
16	Dividends	\$	\$	\$		% Enter as a negative
17	Net Cash from Financing Activities	\$	\$	\$		% Add Lines 14 through 17
18	Net Change in Cash	\$	\$	\$		% Add Lines 7, 12 and 17

After you have prepared this statement or one similar to it, you can then focus on each of the line items and begin the process of improving them as you see appropriate.