

The Cash Flow Statement



OTHERWISE KNOWN AS: the Liquidity Statement (though usually this also includes a line for any overdraft facility that has been arranged).

PERIOD: like a movie, it measures financial transactions over a period of time, such as a month, quarter or year.

FORMULA: Cash Flow = Cash In – Cash Out

IMPORTANT TO UNDERSTAND:

- Cash flow is only concerned with real cash transfers, therefore accounting mechanisms like depreciation and amortisation are not included in its calculation.
- Profit ≠ cash. You can be profitable but have negative cash flow and vice versa.
- The free cash flow (FCF) indicates a business's ability to sustainably finance its operating and investing activities.

SOME OF THE THINGS IT TELLS YOU:

- How much funding you will need and what your monthly burn rate is.
- How much spare cash you have available at the end of a period.
- How much spare cash you should have available as a safety net (i.e. what your liquidity needs are).
- Where the cash is coming from and where it is going.
- What the biggest cash drains on the business are.
- Whether customer payment periods need reducing.
- How long it will take until you start generating cash.
- What your future potential returns could be (allowing you to calculate the Net Present Value of your business).
- Whether your investments support your business plan.
- Whether your financing strategy supports your business plan.
- Whether your growth strategy is realistic

Example Cash Flow Statement

FORECAST FLOWERS - MONTH 1



The net amount of cash in and out from buying and selling assets

The net amount of cash in and out from and to investors and debtors

The amount of cash you start the period with

	Cash Flow from Operations	-4,300
→	Cash Flow from Investing	-18,000
	= FREE CASH FLOW	-22,300
→	Cash Flow from Financing	25,000
	= CASH FLOW	2,700
→	Cash Start	0
	= CASH END	2,700

← The net amount of cash in and out from running the business

← Positive Free Cash Flow means you generate cash, negative Free Cash Flow means you need to use your Starting Cash or Cash Flow from Financing

← The net amount of cash in and out over the period - the "Cash Flow"

← The amount of cash you end the period with, which becomes the starting cash for the next period