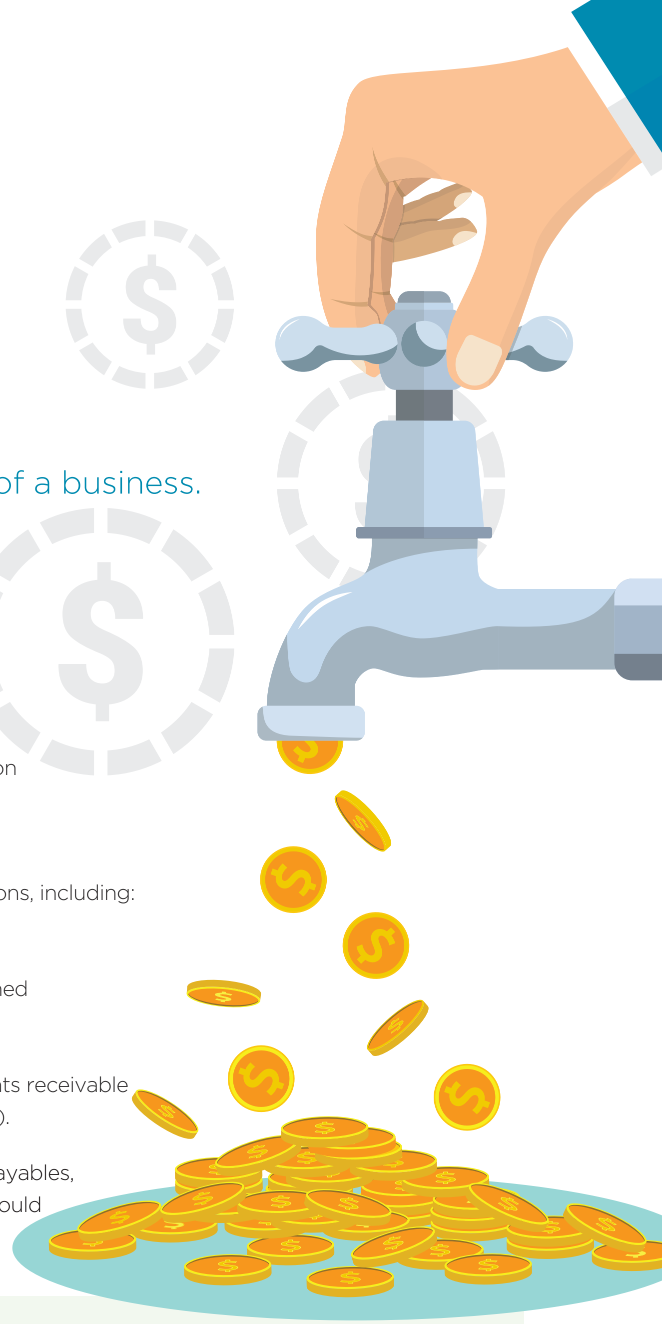
JUST THE FACTS BUSINESS:
HELPING YOU TALK ABOUT MONEY

Cash Flow



Cash flow is the management of money in and out of a business.

- Money coming in (from customers buying a product or service) but not yet collected is called **receivables**.
- Money going out (to pay suppliers, staff and other operating costs) but not yet actually paid is called **payables**.

To be successful, businesses need to ensure that cash collected is enough to meet cash payments.

- If not, strategies are needed to fix the situation, such as accelerating collection from customers and/or negotiating with suppliers for later payment dates.

What is cash?

- Cash includes all money immediately available to the business for its operations, including:
  - Coins and paper money.
  - Funds in bank accounts.
  - Liquid marketable securities – financial products that can be sold or cashed in immediately, such as Guaranteed Investment Certificates.
  - Stocks, which have a monetary value when sold.
- Cash does <u>not</u> include capital assets (equipment, buildings, vehicles), accounts receivable (sales made but not yet collected) or inventory (products waiting to be sold).

Good cash management requires a **cash budget**, setting out known costs and payables, plus funds to cover emergencies and unexpected expenses. The cash budget should be updated regularly to account for changes in the marketplace.

When managing cash flow, consider:

Cash on hand

- Funds that are restricted – i.e., the cash is not yours!
- Includes money earmarked for the Canada Revenue Agency – taxes (such as GST) and payroll deductions (such as Canada Pension Plan and Employment Insurance payments).
- Could include securities demanded by a financial institution, such as an amount to be kept in reserve.

This money should be kept and recorded separately.

Cash for use

- Money available for operation of the business.
- Includes regular costs such as rent, loan payments (principal and interest), utilities and wages, as well as transactional fees (such as the percentage paid to credit card companies), and "what if?" contingencies.

Excess cash can be used for investment, expansion and diversification.

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