

BUSINESS SENSE

Next Level Tools for Entrepreneurs & Small Business Owners

FINANCIAL LITERACY SERIES

13-Week Cash Flow Model

Why is this important?

Cash flow can be an even more important measure of your business's health and eventual success than your revenue or profit. Why? Because without cash, you can't pay your bills or your employees. You can't purchase inventory, you can't pay rent, and you definitely can't afford to invest in your business's future. Most importantly, without a positive inflow of cash, you literally can't sustain day-to-day business operations. You need money in the bank to make purchases that keep your business afloat and help you avoid unnecessary debt. Said simply, when you have positive cash flow, you're making enough money to cover your bills and even reinvest in your business, expanding operations and hiring new employees. Cash flow statements are one of the key documents investors look at when deciding to finance your business or not. Put alongside the profit and loss (income) statement and balance sheet, the cash flow statement reveals the state of your business, which in turn helps investors decide if they trust you with their money.



Vermont Sustainable Jobs Fund

13-Week Cash Flow

A Cash Flow Statement, also referred to as Sources and Uses of Cash, is included by CPA's in audited financial statements. However, that statement is a static snapshot of the history of sources and uses of cash up to a specific period end that is being reported.

Managers of a small business need another type of cash flow that reports a few weeks or months of history and also projects cash flow in the future. This cash flow is built on a spreadsheet. It is highly recommended for businesses to look at cash flows over a period of 13 consecutive rolling weeks, or effectively a quarter of the year.

Loan officers and investors may want to see a cash flow of months or years so that they can make an informed decision about the future viability of your business. Cash flow as a managerial financial statement may be the most important of all because in an entrepreneurial business "Cash is King." Though your Income Statement may demonstrate you are making a profit, if your cash is tied up in inventory, or your



receivables are late, you will be unable to meet payroll and pay your suppliers. Bottom line - if you run out of cash, you are out of business.

Simple and effective for managing cash, the cash flow template provided in this Series is standard and recognized by bankers and investors, and will become an indispensable tool for owners and managers.

Some Basic Concepts Related to Cash Flow Statements:

- 1.** Sales on Income Statement (aka as P&L, or Profit and Loss Statement) does not equal cash in accrual accounting which is recommended for any business intent on growth.
 - Receivables are recognized as income when posted, but cash receipt may be delayed.
 - Disputes/Returns will decrease incoming cash.
 - Depending on when customers actually receive your goods, payment may or may not conform to the payment terms you have set.
 - Depending on your vendors' terms, you may need to pay their invoices in a timely way that decreases cash.
- 2.** Purchases of Raw Materials usually do not hit the P&L until they are consumed and show up as Cost of Goods Sold, but those purchases decrease cash, often, long before they are consumed.
- 3.** As you experience growth, Purchases and Expenses will ramp up quickly, but Sales and Collections generally lag. This is why it is important to closely watch your cash.
- 4.** Watching your cash flow enables you to look ahead and anticipate growing

BUSINESS SENSE

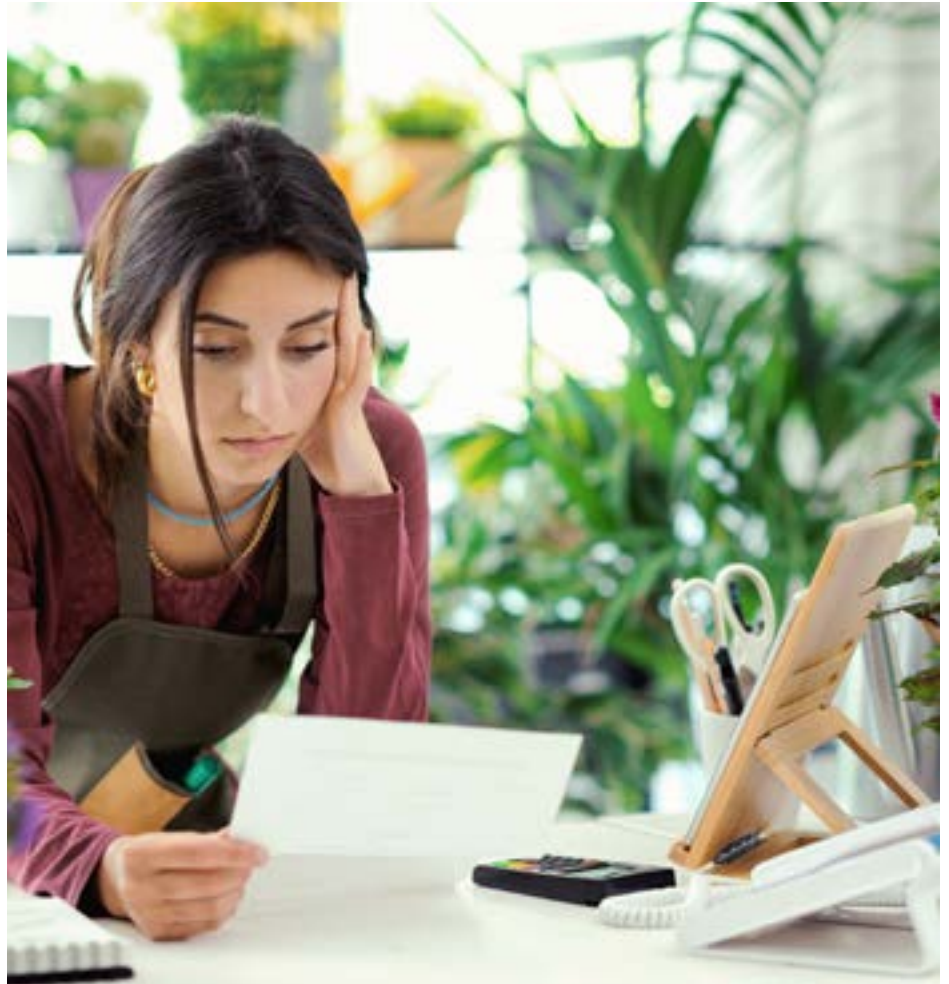
Next Level Tools for Entrepreneurs & Small Business Owners

pains or, in the case of a pandemic or other external issue, consider austerity measures and plan strategies to get through these periods.

- You can work with vendors to delay payments.
- You can work with your bank to delay or defer payments or make interest only payments.
- You can work with customers to advance payment terms.
- Having 13 weeks or more of closely monitored cash flow instills confidence in your creditors that you are in control.

5. Always tell your creditors/bankers EVERYTHING. Do not hold bad or disappointing news in the hopes that something will improve. The more they know, the more they can help.

6. Why 13 weeks? It's the length of a quarter, so it's a convenient measurement period. A 13-Week Cash Flow Template is available in this Series in two formats: a pdf visual reference as well as an editable Excel file you can download to enable you to input your data and examine your business' cash flow.



Business Sense is a no-fluff source of information that gets right to the heart of what small business owners need: essential tools and informational resources to help their businesses grow. Written by our team of business coaches, this series shares their decades of experience in areas such as financials, operations, sales and marketing, human resources, leadership, and governance. Business Sense is designed to provide entrepreneurs and small business owners in various sectors, including agriculture, forestry, waste management, renewable energy, and environmental technology, with recommendations and practical advice to help their businesses not only survive but thrive.

Our business management coaching and Business Sense Resource Guide are designed to accelerate the growth of the enterprises we work with and expand the leadership capacity of the entrepreneurs who own and manage these businesses.

Let Us Help You and Your Business

The Vermont Sustainable Jobs Fund provides tailored business management coaching, entrepreneurial support, and training to position Vermont-based entrepreneurs and small business owners in our designated market sectors for growth and long-term success. We partner with state government, private sector businesses and nonprofit organizations to build a thriving economic, social and ecological future for Vermont. Learn more at [VSJF.org](https://vsjf.org)



Vermont Sustainable Jobs Fund

Accelerating Sustainable Economic Development

[Learn More](#)