

FINANCIAL FOUNDATIONS

An Educational Ebook Series for Small Business Owners

BOOK 07

Cash Flow Basics

Follow the movement of money through your business.



TLC Business Solutions · Expert Bookkeeping & Accounting Services

Cash Flow Basics

FINANCIAL FOUNDATIONS SERIES

BOOK 07 OF 16

Cash Flow Basics

Understanding the Lifeblood of Your Business — a practical guide to the movement of money, why it matters more than profit, and how to keep your business alive and growing.



TLC Business Solutions

ACCOUNTING · BOOKKEEPING · TAX · CONSULTING

Cash Flow Basics

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GETTING STARTED

Understanding Cash Flow

If profit is the scoreboard of your business, cash flow is its heartbeat. A business can look profitable on paper and still collapse — not because it isn't making money, but because the money isn't there when the bills come due. Understanding cash flow is the single most important skill a small business owner can develop to keep their business alive.

1. What Is Cash Flow?

Cash flow is the movement of money in and out of your business over a specific period of time. It tracks the actual cash that enters your bank account and the actual cash that leaves it — not promises to pay, not invoiced amounts still owed to you, but real, spendable money.

Money coming in is called a **cash inflow**. The most obvious inflow is the cash your customers pay you for goods or services, but inflows also include loan proceeds, owner contributions, and the sale of business assets. Money going out is called a **cash outflow** — rent, payroll, supplier payments, loan repayments, taxes, and equipment purchases all count. The relationship between the two is simple:

THE CASH FLOW FORMULA

$$\text{Cash Flow} = \text{Cash Inflows} - \text{Cash Outflows}$$

When inflows exceed outflows, you have **positive cash flow** — your cash balance grows. When outflows exceed inflows, you have **negative cash flow** — your cash balance shrinks. That growing or shrinking balance is the number that determines whether you can make payroll next Friday, whether you can seize an opportunity, and ultimately, whether your business survives.

2. Cash Flow vs. Profitability

Here is the misconception that sinks more small businesses than almost any other: *if my business is profitable, I must have money in the bank*. It sounds logical, but it confuses two fundamentally different things. **Profit** is an accounting measure — your revenue minus your expenses over a

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period. **Cash flow** is about the actual timing of when money arrives and when it leaves.

The gap between them comes down to **timing**. Under accrual accounting, you record revenue when you earn it — the moment you send an invoice — not when the customer actually pays. So a sale can show up as profit on your income statement weeks or months before the cash lands in your account. Meanwhile, your expenses — rent, payroll, supplier bills — often demand immediate payment.

WORKED EXAMPLE: THE PROFITABLE BUSINESS THAT WENT BROKE

A consulting firm lands a **\$50,000** contract in March and invoices the client on accrual — March shows **\$50,000 in profit**.

But the client's payment terms are **net 60**, so the cash won't arrive until May.

In the meantime, the firm must pay **\$30,000** in payroll and rent — in cash — by April 1.

Profitable on paper. Out of cash in reality.

This is how a profitable business goes broke. Profit was booked the day the invoice was sent, but the cash to pay the bills didn't exist yet. The business had no cash reserve to bridge the gap, so it couldn't meet its obligations — and no amount of profit on a spreadsheet can write a paycheck.

THE HARD TRUTH

You can't pay suppliers with profit. You can't make payroll with an unpaid invoice. **Cash — not profit — is what keeps the lights on.** A business can survive a long time without profit; it cannot survive a single week without cash. Profit tells you whether your business model works. Cash flow tells you whether your business will still be here next month.

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THE THREE STREAMS

Types of Cash Flow

3. The Three Types of Cash Flow

Not all cash movement means the same thing. Accountants sort every cash transaction into one of three categories, and together they make up your **statement of cash flows**. Understanding what belongs in each category tells you whether your cash is coming from a healthy core business, from selling off assets, or from borrowing — and that distinction matters enormously.

O

Operating

Cash generated from your day-to-day business activities — the money customers pay you, minus what you pay to suppliers, employees, rent, and utilities. This is the heartbeat: the cash your core business produces on its own.

I

Investing

Cash spent on or received from long-term assets — buying equipment, property, or vehicles, or selling them. Investing outflows often signal growth, while large inflows may mean you're selling off assets to raise cash.

F

Financing

Cash from dealings with owners and creditors — loan proceeds, loan repayments, owner contributions, dividend payments, or owner draws. It reflects how you fund the business rather than how the business itself performs.

The most important of the three is **operating cash flow**. It answers the question every owner should ask first: *Is my core business generating enough cash to sustain itself?* If operating cash flow is consistently positive, your business is fundamentally healthy — it pays its own way. If it's consistently negative, you're burning cash just to keep the doors open, and you're surviving only by drawing on savings, loans, or owner contributions. That is not a sustainable position.

HOW TO READ THE THREE TOGETHER

A business with **positive operating cash flow** and **negative investing cash flow** is often a healthy growing company — it's generating cash from operations and reinvesting it in equipment or expansion. But a business with **negative operating cash flow** and **positive financing cash flow** is a warning sign: it can't fund itself and is leaning on loans or owner cash to stay afloat. The pattern matters more than any single number.

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WHAT THE NUMBERS MEAN

Positive vs. Negative Cash Flow

4. Positive vs. Negative Cash Flow

At its simplest, cash flow is either positive or negative. But what each one means for your business depends heavily on context — on which of the three categories it's happening in, and for how long.

POSITIVE CASH FLOW

Inflows > Outflows

More cash is coming in than going out. Your bank balance grows. This builds the reserves you need to weather slow seasons, seize opportunities, and invest in growth.

NEGATIVE CASH FLOW

Outflows > Inflows

More cash is leaving than arriving. Your bank balance shrinks. Persistent negative cash flow drains reserves and, left unchecked, leads to insolvency.

Positive cash flow is the goal — but its source matters. Positive cash flow from *operations* means your business is self-sustaining and healthy. Positive cash flow from *financing* (a new loan, for instance) is borrowed time, not earned cash. A business that shows positive total cash flow only because it took on debt is not actually growing stronger; it's just postponing the reckoning.

Negative cash flow is not automatically a disaster — and this is where context is everything. A young company investing heavily in equipment may show negative cash flow for months as it builds capacity for future sales. A seasonal business may have negative cash flow in its off-season, drawing on reserves it built during peak months. These can be deliberate, healthy choices. The danger is *persistent, unexplained* negative cash flow from operations — the slow bleed that drains your reserves without a clear plan or endpoint.

THE QUESTION THAT MATTERS MOST

When you see negative cash flow, don't panic — investigate. Ask: *Is this temporary and strategic, or chronic and structural?* A planned investment that will pay off is very different from a business that quietly loses money every month with no end in sight. The first is a choice; the second is a failing business model. Knowing which one you're looking at is the whole point of tracking cash flow.

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WHY IT MATTERS

Why Monitoring Cash Flow Is Critical

5. Why Monitoring Cash Flow Is Critical for Survival and Growth

Cash flow is often called the lifeblood of a business for good reason — without it, nothing else functions. Monitoring it closely is not an accounting formality; it is the early-warning system that determines whether your business survives a downturn and whether it can afford to grow. Here is why keeping a close eye on cash flow matters so much.

It keeps you alive. The single most common reason small businesses fail is not a lack of profit — it's running out of cash. Monitoring cash flow means you see a shortfall coming weeks before it arrives, while there is still time to act: chase a late payment, arrange a line of credit, or slow discretionary spending. By the time the bank account is empty, it's already too late.

It lets you anticipate, not react. A cash flow forecast — even a simple one — projects your expected inflows and outflows over the coming weeks and months. It turns surprises into scheduled events. Instead of discovering on payday that there isn't enough to cover payroll, you knew three weeks ago and already arranged a bridge.

It tells you when you can grow. Growth often requires cash — to buy inventory, hire staff, or open a new location — before that growth generates returns. Without knowing your cash position, you risk overcommitting and choking on your own expansion. Monitoring cash flow tells you exactly how much you can safely invest and when.

It builds lender and investor confidence. Banks and investors care far more about cash flow than about profit projections. Demonstrating that you track, understand, and manage your cash flow signals that you run a disciplined operation — and that makes funding easier, cheaper, and faster to secure when you need it.

CASH FLOW IS A HABIT, NOT A REPORT

Reviewing cash flow once a year at tax time is like checking the fuel gauge after you've already run out of gas. The businesses that thrive review their cash position **weekly or monthly** — not because it's a chore, but because it's the dashboard that tells them whether they're headed toward a wall or an open road. Make it a regular habit, and you'll rarely be caught off guard.

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PRACTICAL STEPS

Basic Tips for Tracking Cash Flow

6. Basic Tips for Tracking Cash Flow

You don't need a finance degree to manage cash flow well — you need a few consistent habits and the discipline to stick with them. Here are seven practical steps any small business owner can put to work immediately.

1 Review Your Cash Position Regularly

Set a fixed time — weekly is ideal, monthly at minimum — to check your bank balance, review recent inflows and outflows, and compare them to expectations. Consistency matters more than complexity; a five-minute weekly review catches problems a quarterly one misses entirely.

2 Build a Simple Cash Flow Forecast

Project expected cash coming in (based on your invoicing and payment terms) and going out (payroll, rent, suppliers, loan payments) for the next 4 to 13 weeks. Even a rough spreadsheet forecast lets you see dry spells approaching while there's still time to prepare.

3 Invoice Promptly and Chase Receivables

The sooner you invoice, the sooner you get paid. Send invoices immediately upon completing work, set clear payment terms, follow up the day a payment is late, and consider offering a small early-payment discount. Every extra day an invoice sits unpaid is a day your cash is financing someone else's business.

4 Manage Payables Strategically

Take full advantage of your suppliers' payment terms — don't pay a net-30 invoice on day 5 if you don't have to. At the same time, never pay late enough to damage a relationship or trigger penalties. The goal is to keep cash in your account as long as responsibly possible.

5 Maintain a Cash Reserve

Aim to keep three to six months of operating expenses in reserve. This buffer absorbs the inevitable surprises — a lost client, a slow season, an unexpected repair — without forcing you into desperate, expensive borrowing. Build it gradually if you must, but build it.

6 Use Accounting Software

Modern accounting platforms automate transaction tracking, categorize cash movement, and generate cash flow statements on demand. They turn a tedious manual chore into a few clicks — and give you accurate, up-to-date numbers instead of guesses. If books aren't your strength, a bookkeeper can manage this for you.

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7

Separate Business and Personal Finances

Commingling funds makes it impossible to see your true cash position and complicates everything from bookkeeping to taxes. Keep a dedicated business bank account, pay yourself through consistent owner's draws or payroll, and treat the business's cash as the business's — not an extension of your personal wallet.

START SIMPLE, THEN REFINE

If seven steps feel overwhelming, start with just two: review your cash position weekly, and build a basic forecast. Those two habits alone put you ahead of most small business owners. Add the rest as they become routine. Managing cash flow is a skill built through repetition — the sooner you begin, the stronger your business becomes.

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REMEMBER THESE

Key Takeaways



Cash Flow Is the Movement of Real Money

Cash flow tracks actual cash entering and leaving your business — not invoices or accruals, but spendable money. It equals cash inflows minus cash outflows, and it's the number that determines whether you can pay your bills.



Profit Does Not Equal Cash

A business can be profitable on paper and still run out of cash, because profit is recorded when earned while cash arrives only when paid. Timing — not just totals — is what separates a thriving business from a bankrupt one.



Know the Three Types: Operating, Investing, Financing

Every cash transaction falls into one of three categories. Operating cash flow — from your core business — is the most important: it tells you whether your business can sustain itself without leaning on loans or owner cash.



Negative Cash Flow Isn't Always Bad — Context Is Key

Short-term negative cash flow from a planned investment can be healthy. Persistent negative operating cash flow with no plan is a warning sign. Always ask whether a shortfall is temporary and strategic or chronic and structural.



Monitoring Cash Flow Is Survival and Growth

Running out of cash is the leading cause of small business failure. Tracking cash flow lets you anticipate shortfalls, decide when you can afford to grow, and build the confidence that lenders and investors look for.



Build the Habits That Keep Cash Flowing

Review your cash position weekly, maintain a forecast, invoice promptly, manage payables, keep a reserve, use accounting software, and separate business from personal finances. Consistency — not complexity — is what protects your business.

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Need Help Managing Your Cash Flow?

At TLC Business Solutions, we help small business owners build clear, reliable cash flow systems — from bookkeeping and cash flow statements to forecasting and financial strategy. With over 30 years of experience and our predictable flat-rate billing model, you get expert support without the anxiety of hourly invoices. We help you improve cash flow and profitability so your business can thrive.

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Build Your Financial Foundations with TLC

TLC Business Solutions helps small business owners strengthen bookkeeping, accounting, payroll, tax consulting, financial management, and practical decision-making systems so the numbers are clean, useful, and ready for growth.

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