

CASH FLOW ANALYSIS

<http://sbinfocanada.about.com/cs/management/g/cashflowanal.htm>

Definition:

Cash flow is essentially the movement of money into and out of your business; it's the cycle of cash inflows and cash outflows that determine your business' solvency.

Cash flow analysis is the study of the cycle of your business' cash inflows and outflows, with the purpose of maintaining an adequate cash flow for your business, and to provide the basis for cash flow management.

Cash flow analysis involves examining the components of your business that affect cash flow, such as accounts receivable, inventory, accounts payable, and credit terms. By performing a cash flow analysis on these separate components, you'll be able to more easily identify cash flow problems and find ways to improve your cash flow.

A quick and easy way to perform a cash flow analysis is to compare the total unpaid purchases to the total sales due at the end of each month. If the total unpaid purchases are greater than the total sales due, you'll need to spend more cash than you receive in the next month, indicating a potential cash flow