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Managing cash flow

Your cash flow is the money you have coming in from revenue and going out for expenses. Good cash flow management will ensure you always have money available for paying your expenses when they are due.

Even profitable businesses can fail if cash flow is not managed properly. If you don't have enough money available to pay your lenders or suppliers, banks may foreclose and suppliers could cut supplies.

There are many areas in your business that can impact on your cash flow. It is important to understand how customer payment terms, supplier payment terms, loan payments, future spending decisions and other items can affect your cash flow.

This guide will help you to manage your cash flow and understand how to use cash flow analysis to inform business decisions.

Plan and monitor cash flow

Planning and monitoring your cash flow is one of the most important things you can do when running your business. This should also include how you will address cash shortfalls or surpluses if they occur.

Forecast cash inflows against cash outflows

A cash flow statement will help you forecast your money coming in and going out. Forecasting your cash flow is usually done annually and broken down into monthly amounts. Always record the amount in the month it is expected to be spent or received. For example, electricity is usually paid quarterly so should be recorded in the month it is due.

You can use a cash flow template to forecast your annual cash flow. You will need to estimate and record the following amounts for each month:

- **total monthly cash inflow** - includes sales, sales of assets, capital injections from borrowings or owners funds, interest revenue and any other sources
- **total monthly cash outflow** - includes items such as purchases, loan payments, supplies, telephone, electricity, wages and any other bills
- **net cash flow** - take the total outflows from the total inflows to see if there is more money in or out
- **opening balance** - record your cash available at the beginning of the month
- **closing balance** - calculate your funds available at the end of the month by adding the net cash flow to the opening balance. This will become your opening balance for the next month. Note: If your net cash flow is negative, this amount will be reduced.

Include GST when inserting amounts for some cash inflows (particularly sales) and many cash outflows (particularly purchases). Calculate the difference between total GST inflows and total GST outflows and insert this as GST payments.

Different businesses are subject to differing GST requirements, so you should seek specific advice from your tax adviser. Learn more about working with business advisers [<https://www.business.qld.gov.au/business/starting/starting-a-business/working-business-advisers>].

Monitor actual inflows against outflows

As each month passes it is important to record your actual cash flow. This can be compared against your forecast to see if you are tracking as planned. You may find you need to review and adjust your forecast as amounts change over the year.

Always make sure your payments received match invoices issued, and receipts and payments match.

Invest surplus cash or arrange loans

If you forecast excess cash for some months, it can be worth putting it in short-term investments to maximise your income. If you anticipate any shortfalls in cash, you may want to plan for an appropriate loan to temporarily cover your costs. Don't forget to include these extra payments or receipts in your cash flow forecast.

Related links

- Learn about monitoring your financial performance [<https://www.business.qld.gov.au/business/running/making-and-managing-money/monitoring-your-financial-performance>].
- Find out about record keeping [<https://www.business.qld.gov.au/business/starting/starting-a-business/record-keeping-business>] for business.

Tips for improving cash flow

Many areas of your business can have an effect on how much cash you have available. By controlling your expenses and increasing your profits, you can improve your cash flow.

Monitor stock levels

Holding too much stock will tie up cash and increase storage and insurance [<https://www.business.qld.gov.au/business/starting/starting-a-business/business-insurance>] costs. Practising good stock control [<https://www.business.qld.gov.au/business/starting/supplier-stock-management/stock-control-basics>] will keep stock at efficient levels.

Manage accounts

Follow up on overdue accounts. Managing debtors [<https://www.business.qld.gov.au/business/running/making-and-managing-money/managing-debtors>] and having good credit policies will keep your cash coming in.

You may also be able to negotiate [<https://www.business.qld.gov.au/business/running/managing-business-relationships/negotiating-successfully>] longer payment terms with your suppliers [<https://www.business.qld.gov.au/business/starting/supplier-stock-management/finding-right-suppliers>]. If you can get payment from your customers before you pay your suppliers, you will have zero out of pocket.

Review banking products

Using the right banking transaction products can have the money in your pocket sooner. Consider a mobile eftpos device, or investigate services to take payments over the phone or online [<https://www.business.qld.gov.au/business/starting/business-startup-options/business-online-basics>].

Increase income

Review your pricing [<https://www.business.qld.gov.au/business/running/marketing/pricing-products-services>], use an advertising [<https://www.business.qld.gov.au/business/running/marketing/advertising>] campaign or improve your customer service [<https://www.business.qld.gov.au/business/running/customer-service/improving-customer-service>] to see if you can increase profits. You may also want to consider growing your business [<https://www.business.qld.gov.au/business/business-improvement/ways-grow-business>].

Reduce overheads

Think about reducing staff overtime and controlling overheads. Make your business more environmentally friendly [<https://www.business.qld.gov.au/business/running/environment/environment-your-business/benefits-environmentally-friendly>] and you may reduce costs such as power and water bills and minimise wastage. Remember to clearly communicate your policies on these items to your staff.

Improve your financial skills or get expert advice

Improving your management and financial skills can help you improve your cash flow. Attend a workshop [<https://www.business.qld.gov.au/business/support-tools-grants/support/workshops-seminars>] to improve your business knowledge.

You can also seek advice from a professional accountant or financial adviser, who can assess your individual situation.

Find an accountant at CPA Australia [<http://www.cpaaustralia.com.au/about-us/find-a-cpa>], Institute of Public Accountants [<http://www.publicaccountants.org.au/>] or Chartered Accountants Australia [<http://www.charteredaccountants.com.au/Chartered-Accountants/Find-a-Chartered-Accountant>].

Related links

- Read about surviving an economic downturn [<https://www.business.qld.gov.au/business/running/risk-management/surviving-economic-downturn>].
- Learn about making your business more profitable [<https://www.business.qld.gov.au/business/running/making-and-managing-money/making-your-business-more-profitable>].

- Find and utilise your competitive advantage [<https://www.business.qld.gov.au/business/starting/market-customer-research/your-competitive-advantage>].

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Analysing your cash flow statement

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When you have a good understanding of your cash flow, you can use that information to measure your performance and make decisions.

Assess your business performance

- You can compare your cash flow to similar businesses. This can help you to identify where you are under spending or over spending compared to your competitors. Learn more about benchmarking your business [<https://www.business.qld.gov.au/business/starting/market-customer-research/benchmarking-business>].
- Cash flow can be used to calculate your financial performance. Financial ratios [<https://www.business.qld.gov.au/business/running/making-and-managing-money/monitoring-your-financial-performance>] often use cash flow to measure your business and see if you are progressing towards your goals. These ratios are also used by lenders and investors to determine your businesses financial condition.
- Compare your forecast amounts against your actual amounts to see if you are performing as expected.
- If you are trying to recover from a setback, you may want to review your cash flow to see where you can free up cash. Learn more about surviving an economic downturn [<https://www.business.qld.gov.au/business/running/risk-management/surviving-economic-downturn>].

Consider cash flow in decision making

When making decisions on specific objectives or purchases, you should consider any impact on cash flow. The cost of an advertising campaign may lower your cash flow initially, but the resulting increased sales may raise your cash flow later. You may need a strategy to cover the cash shortage to gain the long-term benefit later.

Your finance plan is a key part of your business plan [<https://www.business.qld.gov.au/business/starting/business-planning/preparing-business-plan>]. Your cash flow forecast can help you to identify financial opportunities or risks and ensure your business is heading in the direction you want.

To get finance, you may need a cash flow projection. Some lenders will require this to ensure you can make repayments. If you are considering taking on debt finance [<https://www.business.qld.gov.au/business/starting/starting-a-business/funding-business>], you will need to consider how repayments will affect your future cash flows.

Related links

- Learn how to calculate your break-even point [<https://www.business.qld.gov.au/business/running/making-and-managing-money/calculating-your-break-even-point>].
- Find out about tax for business: the basics [<https://www.business.qld.gov.au/business/running/making-and-managing-money/tax-for-business>].

- Read about how to make your business more profitable [<https://www.business.qld.gov.au/business/running/making-and-managing-money/making-your-business-more-profitable>].
- You and your business may benefit from working with a business mentor [<https://www.business.qld.gov.au/business/business-improvement/business-mentoring>].

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