



Module 10 Managing Cash Flow

PARTICIPANT GUIDE

MONEY SMART for Small Business

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system. One way we do that is by providing free, objective financial education materials, including this participant guide. For more information about our family of Money Smart products, visit [fdic.gov/moneysmart](https://www.fdic.gov/moneysmart).

The U.S. Small Business Administration (SBA) aids, counsels, assists, and protects the interests of small business concerns. It advocates on their behalf within the government and provides financial, contractual, and business development assistance. To learn more about SBA's work and to access information and resources, visit [sba.gov](https://www.sba.gov).

DISCLAIMER

These training materials are intended as general guidance only and may or may not apply to a particular situation based on the circumstances. The materials do not create any legal rights or impose any legally binding requirements or obligations on the FDIC or SBA. The FDIC and SBA make no claims or guarantees regarding the accuracy or timeliness of this information.

The content of this training material is not designed or intended to provide authoritative financial, accounting, investment, legal, or other professional advice that may be reasonably relied on by its readers. If expert assistance in any of these areas is required, readers should seek the services of a qualified professional.

Reference to any specific organization, commercial product, process, or service by trade name, trademark, manufacturer, or otherwise does not constitute an endorsement, recommendation, or preference by the FDIC, SBA, or the United States government.

Contents

- Welcome 1**
 - Participant Guide 1
 - Learning Objectives 1
 - Pre-Survey..... 1
- Section 1: Cash Flow Concepts 2**
 - Measuring Periodic Cash Flow..... 2
 - Try It: Reading a Cash Flow Statement and Cash Flow Projections..... 3
 - Example Combined Cash Flow Statement and Projections* 3
 - The Cash Conversion Cycle..... 5
 - How Cash Flows Into and Out of a Business 6
 - Try It: Diagramming Cash Flow 6
 - Scenario: Babak’s Cash Flow Analysis* 6
 - Maintaining a Cash Reserve..... 7
 - Apply It: Cash Flow Components Checklist 8
 - Apply It: Projecting Cash Flow for My Business 9
 - Cash Flow Projections (Pro Forma Cash Flow Statement)*..... 10
- Section 2: Cash Flow Analysis 12**
 - Try It: Analyzing a Cash Flow Projection 12
 - Scenario: Babak Uses Cash Flow Projections to Plan*..... 12
 - Cash Flow Management Dos and Don’ts..... 13
- Module Closing 14**
 - For More Information..... 14
 - Glossary..... 15
 - Pre-Survey..... 17
 - Post-Survey 18
 - Evaluation Form 19



Welcome

Welcome to the FDIC and SBA's Money Smart for Small Business! This training is on **Managing Cash Flow**.

Participant Guide

Use this participant guide during and after training. You can write in it. It is yours to keep.

Learning Objectives

This training will help you analyze your business's cash flow and manage it effectively. As a result of completing this module, you will be able to:

- Explain the difference between cash flow actuals and cash flow projections
- Describe how cash flows into and out of a business
- Project cash flow for your business
- Analyze cash flow to plan and problem-solve

Pre-Survey

Please take ten minutes to complete the pre-survey found at the back of this participant guide.

In part 1, circle the number that shows how much you agree with each statement.

In part 2, answer the questions about today's training topics.

After the training, you will revisit this survey to see what you have learned.





Section 1: Cash Flow Concepts

We will discuss:

- The difference between cash flow statements and cash flow projections
- How cash flows into and out of a business
- Projecting cash flow for your business

Measuring Periodic Cash Flow

Cash flow is the inflow and outflow of cash within a business over a specific period.

What are examples of cash inflows?

What are examples of cash outflows?

Periodic cash flow measurement is tracking and analyzing the inflows and outflows of cash over specific, regular intervals, such as monthly, quarterly, or annually. It helps you understand your business's financial health and estimate your cash position in the future.

Why is it important to estimate your cash position in the future?

Cash Flow Statement	Cash Flow Projection
<ul style="list-style-type: none">▪ Backward-looking record of cash movements over a specific period▪ Actuals▪ Can be a basis for projecting cash flow into the future	<ul style="list-style-type: none">▪ Forward-looking estimate of cash inflows and outflows▪ Projections▪ Estimates a business's future cash position▪ Also called a pro-forma cash flow statement



Try It: Reading a Cash Flow Statement and Cash Flow Projections

Use the example combined cash flow statement and projections to complete the table.

Example Combined Cash Flow Statement and Projections

Business Name: Party Central

Cash Flow Item	Cash Flow Statement – Actuals, August 2028		Cash Flow Projections, September 2028	
Beginning Cash	\$	2,500	\$	7,750
Operating Activities				
<i>Cash Inflows</i>				
Customers	\$	15,000	\$	14,000
Other Operations	\$	5,000	\$	0
<i>Additions to Cash</i>				
Decrease in Accounts Receivable	\$	2,500	\$	1,000
<i>Cash Outflows</i>				
Inventory Purchases	\$	(3,000)	\$	(2,000)
General Operating and Admin Expenses	\$	(4,000)	\$	(4,500)
Salaries and Wages	\$	(5,000)	\$	(6,000)
Interest Expenses	\$	(250)	\$	(250)
Income Taxes	\$	(1,000)	\$	(800)
<i>Net Cash Flow from Operations</i>	\$	9,250	\$	1,450
Investing Activities				
<i>Cash Inflows</i>				
Sale of Equipment	\$	0	\$	500
<i>Cash Outflows</i>				
Purchase of Equipment	\$	(2,500)	\$	(4,000)
<i>Net Cash Flow from Investing</i>	\$	(2,500)	\$	(3,500)
Financing Activities				
<i>Cash Inflows</i>				
Borrowing (Loans)	\$	0	\$	0
<i>Cash Outflows</i>				
Owner's Distributions	\$	(1,500)	\$	(1,500)
<i>Net Cash Flow from Financing</i>	\$	(1,500)	\$	(1,500)



Cash Flow Item	Cash Flow Statement – Actuals, August 2028		Cash Flow Projections, September 2028	
Summary				
Change in Cash	\$	5,250	\$	(3,350)
Ending Cash	\$	7,750	\$	4,200

Use the example combined cash flow statement and projections, to complete the table. Identify the row where each item is found and the amount.

Find...	Row Label	Amount
How much the owners withdrew from the business in August		\$
Inflows from sales to customers in August		\$
Planned outflows for purchasing equipment in September		\$
How much cash the business will have at the end of September based on the projections		\$



The Cash Conversion Cycle

The **cash conversion cycle (CCC)** is a financial metric that measures how efficiently a company manages its working capital. Working capital is the money a business has available to meet its day-to-day expenses, calculated as current assets minus current liabilities.

The CCC represents the number of days it takes for a company to convert its investments in inventory and other resources into cash flows from sales. The shorter the cycle, the more efficient your business operations and payment terms are.

The cash conversion cycle calculation has three components:

- The **days inventory outstanding (DIO)** measures the time it takes to convert raw materials or labor into finished goods and sell them. This measures how long inventory is held before a sale occurs.

$$\text{DIO} = \left(\frac{\text{Average Inventory}}{\text{Cost of Goods Sold}} \right) \times 365$$

- The **days sales outstanding (DSO)** measures the time it takes to collect cash from customers after a sale is made on credit.

$$\text{DSO} = \left(\frac{\text{Accounts Receivable}}{\text{Net Credit Sales}} \right) \times 365$$

- The **days payables outstanding (DPO)** measures the time the company takes to pay its suppliers and vendors.

$$\text{DPO} = \left(\frac{\text{Accounts Payable}}{\text{Cost of Goods Sold}} \right) \times 365$$

Once you have calculated them for your business, you can calculate the full cash conversion cycle:

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

What do you think is the ideal number of days in a cash conversion cycle?

This metric depends on how long it takes a business to convert its investments in inventory and other resources into cash flows from sales.

- A short cash conversion cycle is beneficial for the business because it means inventory is turned into cash faster.
- A shorter cash conversion cycle indicates that a business is more efficient at converting its inventory investments into cash.
- A longer cash conversion cycle may suggest inefficiencies in inventory management, collections, or payment terms.



What steps could you take to shorten the cash conversion cycle?

How Cash Flows Into and Out of a Business

Cash flows in from sales, borrowing, investment, and other contributions.

Cash is stored as inventory, available cash, and accounts receivable.

Cash flows out for operating expenses, payroll, debt payments, taxes, owner's draws, shrinkage, spoilage, and obsolescence.

What other examples can you think of for each category?

Try It: Diagramming Cash Flow

Read the scenario and categorize the items in the list using the table provided.

Scenario: Babak's Cash Flow Analysis

Babak owns a coffee shop called The Wired Cup. He often seems to be short on cash. In March, he had to contribute more of his personal funds to the business. He also took out a short-term business loan in the middle of March to cover expenses during the month. He wants to better understand his business's cash flow, starting with last month. He started a list of business activities from the month.

March Business Activities for The Wired Cup

- Employee wages in March - \$3,000
- SBA microloan payment in March - \$300
- Rent payment in March - \$2,000
- Cash in the cash register at closing on March 31 - \$500
- Additional cash invested by Babak in March - \$1,500
- Coffee sales in March - \$4,000
- Value of coffee bean inventory at closing March 31 - \$1,000
- Pastry sales in March - \$5,000
- Short-term business loan proceeds received in March - \$2,500
- Coffee bean purchase in March - \$1,200



Categorize the items in the list as cash in, cash stored, or cash out.

Cash In	Cash Stored	Cash Out
---------	-------------	----------

What may be missing from Babak's list that should be included in his analysis of cash flow?

Maintaining a Cash Reserve

One of the best ways to protect your business from cash flow challenges is to maintain a cash reserve. A cash reserve for a business is a fund you can draw on to meet business needs. It's similar to a personal savings account, but for your business.

When might a business use a cash reserve?

Consider these approaches to building a cash reserve:

- Set aside a percentage of profits each month as cash reserve to ensure cash flow stability
- Reduce unnecessary expenses
- Plan for seasonal fluctuations



Apply It: Cash Flow Components Checklist

Use this checklist to identify business activities that are relevant to cash flow for your business. Check items that apply to your business and add any that are missing.

Note that direct costs are incurred in the production of specific goods and services that are sold to customers. Indirect costs are operating expenses that are not tied to the production of specific goods and services.

Cash In

Cash sales	Interest income
Collections from customer credit accounts	Tax refunds
Loans	Miscellaneous cash receipts
Grants	Other:
Other cash contributions	Other:

Cash Out

Cost of goods sold

Product or service costs	Other direct costs
Salaries (direct)*	Other:
Payroll taxes and benefits (direct)*	Other:
Supplies	Other:

Operating expenses

Advertising and promotion	Printing/reproduction
Auto/transportation	Professional services
Bank service charges	Mortgage/rent
Licenses and permits	Salaries/wages (indirect)**
Computer/internet expense	Payroll taxes and benefits (indirect)**
Dues and subscriptions	Telephone
Insurance	Travel
Meals and entertainment	Utilities
Merchant account fees	Website development
Office supplies	Other:
Payroll processing expense	Other:
Postage and delivery	Other:

Other

Charitable contributions	Other:
Continuing education/training	Other:

* Direct labor, payroll taxes, and benefits are directly tied to the production of goods and services for sale to customers.

** Indirect labor, payroll taxes, and benefits are not directly traceable to the production of goods and services but are necessary for the production process.



Apply It: Projecting Cash Flow for My Business

Use the template to project cash flow for your business. Place a minus sign “-“ before cash outflow numbers to ensure the automatic calculations treat them as negative numbers. This template can be reproduced in an Excel spreadsheet with formulas to automate the calculations.

If your business is currently operating, make some reasonable financial and market assumptions to project what your cash flow could be for the following month.

If your business is pre-launch or starting up, project what cash flow could be during the first full month of operations given market conditions and your market research.

Remember, these are just estimates and can be revised at any time. The idea is to get into the habit of thinking about cash flow.



Cash Flow Projections (Pro Forma Cash Flow Statement)

Business Name: _____

Cash Flow Item	Projected Cash Flow for:	Projected Cash Flow for:
Beginning Cash	\$	\$
Operating Activities		
<i>Cash Inflows</i>		
Customers	\$	\$
Other Operations	\$	\$
<i>Additions to Cash</i>		
Decrease in Accounts Receivable	\$	\$
Other:	\$	\$
<i>Cash Outflows</i>		
Inventory Purchases	\$	\$
General Operating and Admin Expenses	\$	\$
Salaries and Wages	\$	\$
Interest Expenses	\$	\$
Income Taxes	\$	\$
Other:	\$	\$
Other:	\$	\$
<i>Net Cash Flow from Operations</i>	\$	\$
Investing Activities		
<i>Cash Inflows</i>		
Sale of Equipment	\$	\$
Other:	\$	\$
Other:	\$	\$
<i>Cash Outflows</i>		
Purchase of Equipment	\$	\$
Other:	\$	\$



Cash Flow Item	Projected Cash Flow for:	Projected Cash Flow for:
Other:	\$	\$
<i>Net Cash Flow from Investing</i>	\$	\$
Financing Activities		
<i>Cash Inflows</i>		
Borrowing (Loans)	\$	\$
Other:	\$	\$
Other:	\$	\$
<i>Cash Outflows</i>		
Other:	\$	\$
Other:	\$	\$
Other:	\$	\$
<i>Net Cash Flow from Financing</i>	\$	\$
Summary		
Change in Cash	\$	\$
Ending Cash	\$	\$





Section 2: Cash Flow Analysis

We will discuss analyzing cash flow to plan and problem-solve.

Try It: Analyzing a Cash Flow Projection

Read the scenario below and answer the following questions.

Scenario: Babak Uses Cash Flow Projections to Plan

Babak developed cash flow projections for six months for his coffee shop, The Wired Cup. He wants to use those projections to help him make decisions about his business. He is considering these three possibilities, which are not currently included in his cash flow projections.

1. Should he hire extra help to handle increased customer demand in May and June? The extra help would cost about \$2,500 per month. It wouldn't increase revenue but would make his life easier during those months.
2. He needs a new commercial espresso machine. The model he prefers costs \$28,000 new. Should he buy it outright? What are his other options?
3. Babak and his bank discussed the possibility of a 24-month loan of \$10,000 for his business. Monthly payments would be \$500. If he took out the loan in April, he would receive the proceeds that month and begin monthly payments in May. How could he use the \$10,000 to improve his cash flow?

Cash Flow Projections for The Wired Cup

Month	April	May	June	July	August	September
Starting Cash	\$5,000	\$6,000	\$8,000	\$11,000	\$7,000	\$3,000
Cash Inflows	\$25,000	\$30,000	\$35,000	\$20,000	\$18,000	\$22,000
Cash Outflows	(\$24,000)	(\$28,000)	(\$32,000)	(\$24,000)	(\$22,000)	(\$21,000)
Ending Cash	\$6,000	\$8,000	\$11,000	\$7,000	\$3,000	\$4,000

1. Should he hire extra help to handle increased customer demand in May and June? The extra help would cost about \$2,500 per month. It wouldn't increase revenue but would make his life easier during those months.



2. He needs a new commercial espresso machine. The model he prefers costs \$28,000 new. Should he buy it outright? What are his other options?

3. Babak and his bank discussed the possibility of a 24-month loan of \$10,000 for his business. Monthly payments would be \$500. If he took out the loan in April, how could he use the \$10,000 to improve his cash flow?

Cash Flow Management Dos and Don'ts

Managing cash flow effectively is crucial for the long-term success of your business. Here are some key Dos and Don'ts to keep in mind.

Dos	Don'ts
<ul style="list-style-type: none">Plan for Seasonal Fluctuations	<ul style="list-style-type: none">Overestimate Revenue
<ul style="list-style-type: none">Maintain a Rapid Cash Conversion Cycle	<ul style="list-style-type: none">Underestimate Costs
<ul style="list-style-type: none">Manage Paperwork and Stay Organized	<ul style="list-style-type: none">Postpone Paying Taxes
<ul style="list-style-type: none">Seek Expert Advice	<ul style="list-style-type: none">Hide from Loan Officers
<ul style="list-style-type: none">Build a Cash Reserve	<ul style="list-style-type: none">Pay Vendors Late

It's Professional to Ask for Help!

Seeking help on this complex subject is a sign of strength, not weakness. Bookkeepers, accountants, and other trusted sources of advice can help.

The U.S. Small Business Administration works with resource partners nationwide to provide mentorship and workshops on managing business finances to pre-launch entrepreneurs and existing businesses. Visit [sba.gov](https://www.sba.gov) and look under 'Local Assistance' to find out what is available in your area from Small Business Development Centers, SCORE business mentors, Veterans Business Outreach Centers, and Women's Business Centers.

Even competitors can be a source of advice. Sharing experiences and strategies with others in your industry can help you navigate common challenges.



Module Closing

You are more likely to act if you commit to taking action now. Write down what you intend to do based on today's training in your participant guide.

What is one goal you will pursue?

What first step will you take toward your goal?

How will you get and give support to other participants?

For More Information

The U.S. Small Business Administration's (SBA's) business guide includes a Manage Your Business module with a section on 'Manage Your Finances.' In addition, MySBALearning platform includes Journey 4: Your Business Financial Strategy. Visit [sba.gov](https://www.sba.gov) to explore these and other resources.

SBA works with resource partners nationwide to provide mentorship and workshops to pre-launch entrepreneurs and existing businesses on topics that include business credit. Visit [sba.gov/local-assistance](https://www.sba.gov/local-assistance) and search by ZIP code under 'Get Local Assistance' to find out what is available in your area from Small Business Development Centers, SCORE business mentors, Veterans Business Outreach Centers, and Women's Business Centers who provide free or low-cost counseling and training in your area.

SCORE is a national nonprofit that helps entrepreneurs launch businesses. Their website at [score.org](https://www.score.org) features articles and other relevant resources including a collection of user-friendly templates for business planning, including a cash flow statement and cash flow projection at <https://www.score.org/templates-resources/business-planning-financial-statements-template-gallery>.

You and other training participants can support each other after the training. Exchange contact information and set up plans to stay in touch, one-on-one or as part of a learning community.

Also explore resources that are specific to your state or locality.



The **Federal Deposit Insurance Corporation (FDIC)** preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$250,000; identifying, monitoring, and addressing risks to the Deposit Insurance Fund; and by limiting the effect on the economy and the financial system when a bank or thrift institution fails.

Visit the Small Business Topics webpage at fdic.gov/consumer-resource-center/small-business-topics to learn about a wide range of resources and tools for consumers and bankers that help plan, launch, manage and grow small business initiatives in their communities.

The FDIC also encourages bank lending to creditworthy small businesses. Small businesses that may have an inquiry or concern about policies, financial institutions, and referrals to other government agencies can contact the FDIC Small Business Hotline at 1-855-FDIC-BIZ (1-855-334-2249).

Visit fdic.gov/doing-business-fdic for information on doing business with the FDIC.

The **U.S. Small Business Administration (SBA)** provides resources, answers to frequently asked questions and more in support of small business owners. Visit sba.gov to explore the agency's learning platform, business guide, and other resources. Contact SBA's Answer Desk at 1-800-827-5722 or answerdesk@sba.gov for general inquiries.

SBA district offices offer help planning, starting, or growing your small business. Find your SBA district office by visiting sba.gov and searching for 'district office.'

The **U.S. Financial Literacy and Education Commission** hosts mymoney.gov, the federal government's one-stop website for financial education resources from more than 20 federal agencies.

Glossary

Term	Definition
Accounts Payable	Money a business owes to suppliers or vendors for goods or services received but not yet paid for.
Accounts Receivable	Money owed to a business by its customers for goods or services delivered but not yet paid for.
Cash Conversion Cycle (CCC)	A measure of how quickly a business can convert the cash spent on inventory and other operating costs into cash from sales. It reflects the time between paying suppliers and collecting payments from sales.
Cash Flow	The movement of money into and out of a business over a specific period. Managing cash flow means ensuring there is enough money to cover expenses, including taxes.
Cash Flow Projection	An estimate of future cash inflows and outflows over a specific period, used to plan and manage finances.
Cash Flow Statement	A financial statement that shows how cash moves in and out of a business over a specific period.
Cash Inflows	Money received by a business, such as from sales, loan proceeds, or owner investments.
Cash Outflows	Money spent by a business, such as for rent, payroll, or supplies.



Term	Definition
Cash Reserve	Money set aside by a business to cover unexpected expenses or periods of low revenue.
Days Inventory Outstanding (DIO)	The average number of days it takes a business to sell its inventory.
Days Payables Outstanding (DPO)	The average number of days a business takes to pay its suppliers.
Days Sales Outstanding (DSO)	The average number of days it takes a business to collect payment after a sale.
Ending Cash	The amount of cash a business has at the end of a specific period.
Financing Activities	Cash transactions related to borrowing, repaying loans, or owner distributions.
Investing Activities	Cash transactions related to buying or selling long-term assets like equipment.
Net Cash Flow	The difference between total cash inflows and outflows during a specific period. It indicates whether the business has more cash coming in than going out.
Operating Activities	Day-to-day business activities that generate revenue and incur expenses.
Owner's Distribution (Owner's Draw)	Money taken out of the business by the owner for personal use.
Pro Forma Cash Flow Statement	A financial projection used to estimate future cash inflows and outflows for a specific period.
Starting Cash	The amount of cash a business has at the beginning of a specific period.
Working Capital	The money a business has available to meet its day-to-day expenses, calculated as current assets minus current liabilities.



Pre-Survey

This form will allow you and your instructor to see what you know about today's topics before the training.

Instructor: _____ Date: _____

Part 1. What Do You Know Before the Training?

Read the statements below and circle the number that shows how much you agree with each one.

	Strongly disagree	Disagree	Agree	Strongly agree
Statement				
1. I can explain the difference between cash flow statements and cash flow projections.				
2. I can describe how cash flows into and out of a business.				
3. I can project cash flow for my business.				
4. I can analyze cash flow to plan and problem-solve.				

Part 2. Questions on Today's Training Topics

Answer these questions.

- A cash flow statement tracks the movement of cash in and out of your business for a specific period of time.
 True False It depends
- Periodic cash flow measurement helps you estimate how much sales revenue you can generate in a 30-day period.
 True False It depends
- A pro forma cash flow statement is a historical record of cash inflows and outflows for a business.
 True False It depends
- Accurate cash flow projections can help a business owner decide whether to take on additional debt or seek financing to cover anticipated shortfalls.
 True False It depends
- The ideal cash cycle is 45 days.
 True False It depends



Post-Survey

This form will allow you and your instructor to see what you know about today's topics after the training.

Instructor: _____ Date: _____

Part 1. What Do You Know After the Training?

Read the statements below and circle the number that shows how much you agree with each one.

	Strongly disagree	Disagree	Agree	Strongly agree
Statement				
1. I can explain the difference between cash flow statements and cash flow projections.				
2. I can describe how cash flows into and out of a business.				
3. I can project cash flow for my business.				
4. I can analyze cash flow to plan and problem-solve.				

Part 2. Questions on Today's Training Topics

Answer these questions.

- A cash flow statement tracks the movement of cash in and out of your business for a specific period of time.

True False It depends
- Periodic cash flow measurement helps you estimate how much sales revenue you can generate in a 30-day period.

True False It depends
- A pro forma cash flow statement is a historical record of cash inflows and outflows for a business.

True False It depends
- Accurate cash flow projections can help a business owner decide whether to take on additional debt or seek financing to cover anticipated shortfalls.

True False It depends
- The ideal cash cycle is 45 days.

True False It depends



Evaluation Form

Please answer the following questions about this training.

1. Please indicate the degree to which you agree with each statement below about the training and supporting materials.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
a. The training content was clear.					
b. The training content was relevant to me as an entrepreneur.					
c. As a result of this training, I feel more capable of moving my business forward related to the module topic.					
d. The activities and discussions helped me learn.					
e. The PowerPoint slides helped me learn.					
f. The participant guide helped me learn.					
g. I will use the participant guide after the training.					
h. The training took a reasonable amount of time.					

2. Please indicate the degree to which you agree with each statement below about the delivery of the training.

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
a. The instructor was well-prepared.					
b. The instructor was knowledgeable.					
c. The instructor made the subject understandable.					
d. The instructor was engaging and cultivated a positive learning environment.					
e. The instructor encouraged questions.					
f. The participants had opportunities to share experiences and ideas.					



