

Module Three – Cash Flow and Expenses



This module introduces students to the principles of cash flow and expenses as it applies to small businesses. The learning outcomes of this module are:

- Understanding the basic principles of cash flow
- How to recognize and categorize different types of expenses
- Introductory knowledge of commonly used accounting terms

Topical overview:

- 1 Introduction
- 2 Overview of cash flow and expenses
- 3 Cash flow
- 4 Expenses
- 5 Conclusion

1 Introduction

Understanding and practicing cash flow management is vital to the survival of a small business. Businesses can operate with limited revenue but a company can't survive extended periods of time without enough cash to cover the cost of doing business.

A lack of available cash flow to float the cost of expenses can limit the amount of work a small business can take on before receiving payment from their previous clients. One in three companies across the Americas have accounts that are 90 days past due, meaning that over 30% of businesses find themselves carrying expenses for more than a quarter of the year⁷. This can be a big financial burden for businesses that don't have a lot of cash on hand.

Recording, allocating, and managing expenses are all part of maintaining a healthy cash flow. Knowing where money is going and what it is being used for is crucial to managing a business' bookkeeping.

2 Overview of Cash Flow and Expenses

Common accounting terms are often thrown around so it's important for any business owner to first understand the basics. This a list of terms mostly commonly used in small business accounting:

- **Accounts payable** – Money you owe to other businesses or individuals for services and/or goods they provided.
- **Accounts receivable** – Money owed to your company by clients for provided services and/or goods.
- **Assets** – Anything of value, tangible or intangible, that has monetary value. The most common categories of assets are cash, accounts receivable, inventory, supplies, and prepaid expenses.
- **Balance sheet** – A balance sheet is a financial document that reviews the assets, liabilities and equity of a company at a single point in time.
- **Bookkeeping** – Keeping records of the financial transactions and information of the business.
- **Breakeven** – The breakeven point is where revenue covers expenses. Money is not being made or being lost.
- **Debt** – Something that is owed or due to an individual or organization. Debt can be used broadly to describe all liabilities (money you're on the hook for), but for small business accounting it typically refers to borrowed money you need to pay back.
- **Expense** – Costs associated with doing business.
- **Fiscal year** – The period of time a company uses for accounting purposes and creating financial reports. A company can align their fiscal year with the calendar, running January to December, or set a start and end month that better align with the purpose of their business.
- **Liability** – Company's legal debt or obligation to another person or company.
- **Loss** – When total revenue for the financial period measured comes in below the breakeven point. More money has been spent or is owed than has been earned.