Anchor START UP! By kuali

CASH FLOW: INCOMING VS OUTGOING

UNDERSTANDING CASH FLOW IN BUSINESS

Cash flow represents the transfer of money in and out of your business. Having good cash flow is vital to any business as it reflects the actual money you have at your disposal. In order to maintain good cash flow, here are some things that you need to take into account.

THE BLACK BOX CONCEPT

Ingredients + Packaging

(Cost of Goods Sold)

Food Product

(Sales)

(+) Incoming + (-) Outgoing = (+) Profits or (-) Loss

The black box concept illustrates that an input, for example raw ingredients, will generate an output, that is a finished product.

The black box represents both the fixed and variable costs of running your business. The key in managing cash flow is to ensure that there are no hidden costs that we may be unaware of.

MANAGING CASH FLOW - BOOK KEEPING AND COSTING

The purpose of business is to make profit, ensure that your (+) Incoming is more than your (-) Outgoing. The only way to do this is to have an accurate record of your sales income and expenses. Here are two ways you can record your costs.

TRADITIONAL BASED COSTING

+ −

Combining everything together as a cost to your business, to be subtracted from sales revenue in determining profit.

ACTIVITY BASED COSTING

÷

The cost is divided according to the usage for different areas of your business such as operations, finance, marketing, etc.

Whichever method you choose, keep accurate records of your incoming and outgoing cash in order to make sure that you always have positive cash flow.

In so doing, you will be able to identify where you have to cut your cost and where you could increase your sales!