



Your Guide to Mastering Cash Flow in Your Small Business

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Table of Contents

Introduction	4
Chapter 1	
Cash Flow 101: What Is It and Why Does It Matter?	5
Chapter 2	
How to Keep Track of Your Cash Flow	12
Chapter 3	
Managing Cash Flow, Advanced: The Profit & Loss Report	19
Chapter 4	
How to Stay on Top of Your Income	23
Chapter 5	
Take Control of Your Expenses	28
Chapter 6	
How Cloud Accounting Can Help You Conquer Your Cash Flow	31

Introduction

There are lots of great reasons to start a small business.

Autonomy. Flexibility. Diverse work. Career satisfaction. Pride. Passion. Tax benefits. Reinvention. Challenge. We could go on and on...

In fact, of the individuals who chose self-employment, 97% of them don't plan on returning to traditional work. #entrepreneurlifeforever

Despite their commitment to running a small business, there is one thing that all entrepreneurs reminisce fondly about: The bi-weekly paycheck.

Right? If you're running a small business, you're probably managing a sometimes precarious balancing act between invoices in and expenses out.

Here's the great news: if you conquer cash flow early on, you'll set yourself up for success in the long run. Want to learn how?

In this eBook, we'll cover the basics of cash flow, including:

- What it is exactly
- Why it matters to your small business
- How to take stock of your cash flow
- How to track it
- How to create a profit/loss report (you're going to look and feel like a boss with this one!)
- How to make the most of every penny coming in
- How to minimize expenses
- How cloud accounting can track cash flow for you



Chapter 01

Cash Flow 101: What Is It and Why Does It Matter?

Let's get started!

Cash flow is the amount of cash moving into (income) and out of (expenses) a business.

Income includes:

- Payments from clients for your services
- Government grants for your business

Expenses vary by business, but may include:

- Rent
- Equipment/supplies
- Loan payments

The Three Cash Flow Colors



In the Red:

Your expenses exceed your income. You don't have enough revenue to meet operating expenses.



In the Black:

Your expenses and your income are equal. You're neither losing nor making money.



In the Green:

Your income exceeds your expenses. You are profitable!



Why Cash Flow Is Challenging

There are lots of factors that will contribute to a business fluctuating between red, black and green. In the early years, you may need to invest in your business before you're at full-speed with your earnings. It's wise to keep expenses as low as possible, but sometimes there are operational costs that can't be avoided.

Expense-related factors include:

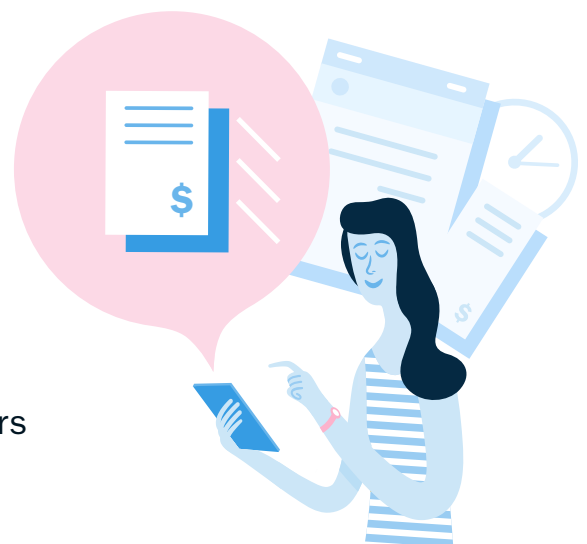
- You need to repair or replace a piece of equipment
- You want to buy new software or take professional training to offer a service that will net a higher income in the long-term
- Rates and prices go up for your office rental, phone/data plan or other monthly utility
- You need to invest in advertising

Some entrepreneurs get a loan from a bank or use credit cards to cover their start-up costs before they issue even one invoice. Starting out in the red makes the road to the land of profit a little longer.

And even if you manage to keep your expenses low, there are other factors that could keep you from achieving a profit. They relate to what's coming in.

Income-related cash flow factors include:

- One or more clients are chronically late to pay you
- One or more client fails to pay you
- Your income fluctuates throughout the year
- You need to pay employees/sub-contractors



How You Approach Your Cash Flow Is Personal!

How you achieve the right balance between income and expenses is up to you. One business owner may have much higher expenses than another, but if they have the income to maintain a profit, it's not a problem.

Here's an example:

Case Study: Meet Lisa and Anna

Lisa and Anna are both successful freelance writers. They have a healthy roster of clients, they charge market price for their work and they get paid an average of \$10,000 each month.



How Lisa Runs Her Business

- Works from her home office
- Pays a monthly wifi and phone bill
- Uses a trusty old laptop to work
- Uses transit to get to client meetings
- Attends local networking and creative meetup events



How Anna Runs Her Business

- Rents a private room in a coworking space
- Loves having the latest tech gadgets
- Wines and dines clients
- Travels to and attends the country's biggest conference to network and learn

Here's a side-by-side comparison of their cash flow:

Lisa & Anna's Cash Flow Comparison		
	Lisa	Anna
Profession	Freelance Writer	Freelance Writer
Average Monthly Income	\$10,000	\$10,000
Average Monthly Expenses:		
Office Space	(\$0)	(\$1,000)
Equipment & Office Supplies	(\$100)	(\$400)
Travel & Transit	(\$130)	(\$2,000)
Conferences	Free	(\$500)
Accounts Utilities	(\$300)	(\$500)
Total Profit	\$9,470	\$5,600

The Catch: There's No Wrong Answer...

In this scenario, neither Lisa nor Anna are “right”. Both businesses are in the green. Lisa's business is more profitable, but Anna might argue that she'd prefer to have slightly less profit in order to enjoy her co-working space, travel and new gadgets.

... Until You're Deeply in the Red

But what happens when your expenses consistently exceed your income? You'll be faced with making some tough choices to help get the balance right.

The problem is that many small business owners don't have a handle on a cash flow issue until it's serious. That's because they're not aware of their cash flow from month to month. To understand your cash flow at any given time, you need to know:

- The cash in your bank account
- How much you have in outstanding invoices (and the value of projects in progress)
- Exactly how much you're putting out in expenses every month

Unless you can put a number to each of these things and see how they interrelate, cash flow will be a mystery. You can control the balance between income and expenses, but first you have to track it. That's coming up next.





HEAR YE!
HEAR YE!



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Chapter 02

How to Keep Track of Your Cash Flow

Do you know exactly what you make every month? What about how much you spend? Can you easily access those numbers?

Being aware of these figures at all times will help you prevent a cash flow crisis before it starts.

It All Starts with Keeping Track of Your Invoices

If you want to be in the green, both now and in the future, you need to easily be able to put your finger on who has paid and who hasn't. And if you don't carefully track your income as you go, you won't know where you stand until tax time. And by then it's often too late to make big changes.

Here are six invoicing best practices from [A 7-Step Guide To Getting Paid Fast](#):

- 1 Be consistent.** For ongoing project work, choose a day to invoice every month (usually the first or the last day of the month; or if the volume of work warrants, invoice bi-weekly for better cash flow). Put it on your calendar or to-do list to make it part of your work flow.
- 2 Be clear.** Make sure the payment amount and due date stand out on your invoice so your clients can quickly scan to get the information they need.
- 3 Offer multiple payment options.** Accepting checks is standard, but make it easy for your clients to pay by other methods, like credit card and e-transfer.
- 4 Be timely.** If your payment terms include milestone-payments, be sure you send them on the date in your contract. You're more likely to be paid on time if you invoice on time.
- 5 Be thorough.** If appropriate, include a PO number, a breakdown of the services, the number of hours per task and any other details that will help your invoice get approved and paid quickly.
- 6 Follow up.** If a client hasn't paid within your payment terms, follow up swiftly with an email or phone call.

Next, Keep Track of Monthly Expenses

It's really easy—maybe too easy!—to whip out a credit card to pay for lunch with a client, pick up office supplies or set up an automatic payment for an online service. But what happens after you've made the purchase? Do you record and track that expense somewhere accessible, or stuff it in an envelope until tax time?

If you don't track your expenses as you go, and compare them against your invoices, you can't calculate your cash flow. Here are some expense-management best practices:

- **Categorize your expenses.** It's helpful to understand where you're incurring business costs. Sort your expenses into categories that are similar to what you'd find on your annual tax form, including:
 - Advertising
 - Vehicle expenses
 - Contractors/employees
 - Education and training
 - Meals and entertainment
 - Office expenses
 - Bank fees



- **Track expenses by client.** Did you have to buy equipment, travel or pick up supplies to complete a project for a client? Even if you billed the client for the expense, be sure to track it so you can see which clients cost money.
- **Have a separate credit card or bank account for your business expenses.** Even if you don't spend a lot, it's helpful to keep your business costs separate from your personal ones. It'll make tax time easier and it's also a simple way to force you to consider each purchase.
- **Upgrade the shoebox.** If you're still tossing receipts in a shoebox, it's time to stop. Spreadsheets and Word documents are good solutions at the start, but cloud accounting software will do a lot of the work for you. (More on that in Chapter 6!)

What to Do with Cash Flow Information

Lots! For instance when Anna and Lisa have a clear line of sight to what they're bringing in and what they're spending, they can make changes to better balance their cash flow.



Lisa's Choices

Here's another look at Lisa's monthly cash flow:

	Lisa
Profession	Freelance Writer
Average Monthly Income	\$10,000
Average Monthly Expenses:	
Office Space	(\$0)
Equipment & Office Supplies	(\$100)
Travel & Transit	(\$130)
Conferences	Free
Accounts Utilities	(\$300)
Total Profit	\$9,470

She knows exactly what she's making and where she's spending.

Here are some choices she can make with that information:



With a healthy monthly profit, she may choose to invest in a new laptop. She knows she's got the positive cash flow to cover the cost.

Or maybe she's saving up for a down payment on a house. If she wants the same profit margin and still wants to buy a laptop, she can focus on making changes to her income, instead of her expenses.

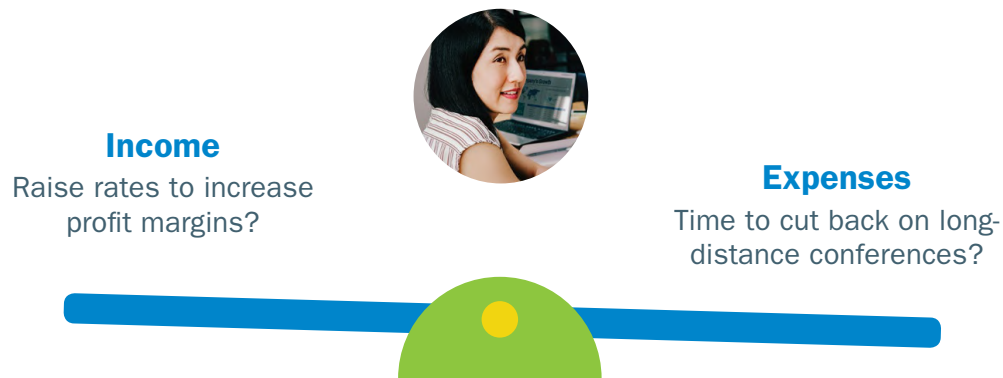


Anna's Choices

Here's what Anna's cash flow looks like:

	Anna
Profession	Freelance Writer
Average Monthly Income	\$10,000
Average Monthly Expenses:	
Office Space	(\$1000)
Equipment & Office Supplies	(\$400)
Travel & Transit	(\$2,000)
Conferences	(\$500)
Accounts Utilities	(\$500)
Total Profit	\$5,600

Anna has choices too:



If she's happy with her profit margins, she can keep things exactly as they are. If she wants to be more profitable, she could consider taking on more clients, raising her rates or cutting back on some expenses.

Moral of the Story: Tracking Saves the Day!

When you track your income and your expenses as you go, you can see exactly where your business stands and make adjustments accordingly. If you've determined that you're in the red, you may decide that equipment upgrade isn't the best idea after all. If you're in the black or the green, you can confidently invest in that professional development opportunity you've had your eye on.

Either way, you won't know for sure unless you track.



Chapter 03

Managing Cash Flow, Advanced: The Profit & Loss Report

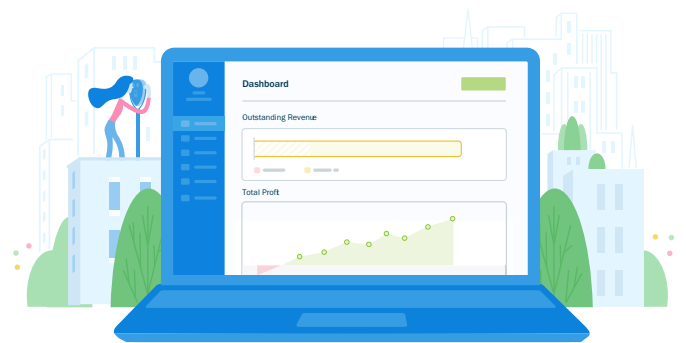
Now that we've covered the importance of tracking your income and your expenses, we can do something a little fancy (and very easy): create a profit & loss report.

What Is a Profit & Loss Report?

This common accounting document is a place to enter and display your income and expense figures so you can see your cash flow and business performance within a specific period of time, e.g. monthly or quarterly. It provides clear line of sight to your cash flow to allow you to make immediate and long-term business decisions.

According to Lei Wang, owner of LW Accounting Services in Toronto, Ont., in [Accounting Beyond the Spreadsheet: Picking the Perfect Accounting Software for Your Business](#), it's most helpful to analyze your profit and loss regularly so you can:

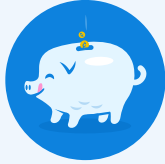
- Monitor where you're spending your cash on expenses and look for ways to minimize it
- Identify what times of the year you tend to have less work and make less money so you know when to cut back or amp up your sales efforts
- Help inform your revenue trend—you may be on an upward trajectory in terms of income, but if your profits are being drastically lowered by expenses you can figure out why and fix it.



What to Include in a Profit & Loss Report

In order to calculate profit & loss (and thus understand your cash flow), you'll need to tally up your income and expenses. You can do it for any period of time you choose, such as monthly, quarterly or annually. For small business owners in their first few years of business, Wang recommends monthly reports so quick changes can be made when necessary.

Here are the categories to consider:



Income

This one's simple and straightforward! The total of invoices paid within the specified period of time.



Taxes

To avoid stress and scrambling, set aside a percentage of every payment you receive. In general, 20% should cover it, but check with your governing tax agency to be sure of your obligations.



Expenses

This is the total of all purchases you made for your business in the specified period of time. Only money you spend on your business should fall into this category.

At the end of the month, it's recommended that you have a profit margin of at least 10%. This represents cash in the bank.



Here's an example of a freelancer who's spending more than they're earning:

	Description	Amount
Income	The amount you get paid from your services	\$10,000
Taxes	The money you set aside for taxes (~20%)	(\$2,000)
Expenses	The amount you spend for business	(\$6,000)
Profit	Cash in the bank	-\$2000

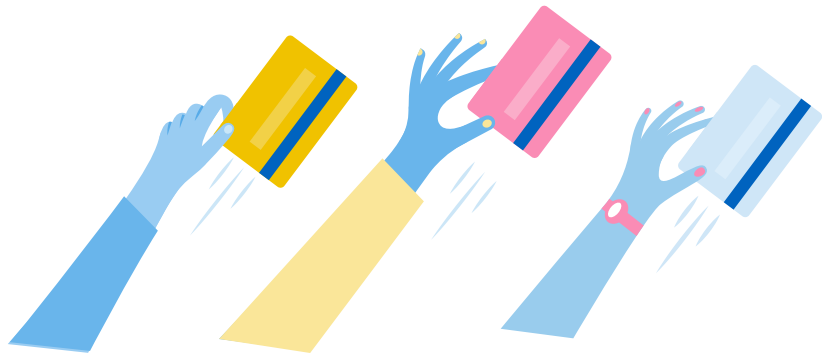


What Do I Do if I'm in the Red?

Don't fret—knowing this information is actually good news! In the case of the small business owners we learned about previously, now they know:

- Exactly how much they need to trim from their expenses
- How they can look to take on more clients or bigger projects to get into the black and beyond.

After all, you can't change what you don't know.



Chapter 04

How to Take Control of Your Income

Want to improve your cash flow? As a business owner, you have control over the amount of money you bring in. You just need to know how to harness it.

6 Ways to Make More Money

1 Work With Higher-Value Clients

Consider casting your net into more lucrative waters. Once you start ratcheting up to bigger and higher-value projects, you can start to cut the lower-paying clients.

2 Take On More Work

Small business owners often feel like there aren't enough hours in the day to complete the workload they have, but there are always ways to be more efficient and productive. (Check out *Discover the Art of Your Workplace Productivity Style* for great tips.)

3 Up Your Marketing Game

Do you have a website? Are you active on the social media platform where your ideal clients hang out? There are lots of ways to get the word out about your business. Invest some of your time and resources to attract and go after high-quality clients.

4 Raise Your Rates

If you've been in business for awhile and you haven't raised your rates, now is the time!

5 Upsell Your Existing Clients As Your Skills Develop

The best place to increase your income is with existing satisfied clients. For example: Instead of pitching one article to an editor, a freelance writer might pitch a series to establish a long-term relationship with this publisher. OR a landscaper might turn that weekly lawn maintenance gig into a comprehensive garden design project.

6 Ask For Testimonials

A small business best practice is to ask for a testimonial at the conclusion of every project. The act of writing a glowing review naturally solidifies your value in a client's mind. Plus, you'll have a growing pile of endorsements to post on your LinkedIn profile and your website.



How to Manage Cash Flow for a Seasonal Business

Some industries have distinct seasons or busy times. But even if you're not tied to the seasons, many freelancers experience peaks and valleys when it comes to business volume. Summertime might be slow if many of your clients are on vacation; the period right before a client's fiscal year-end can be a wildly busy time.

Your fluctuating income can lead to inconsistent cash flow. Here are some strategies to help you conquer cash flow when you don't have steady work:

- **Identify your busy and slow times.** Here's where a year or two worth of monthly profit & loss reports will come in handy; you'll have hard evidence that'll inform when you can afford to take on new expenses and when it's better to tighten your belt.
- **"Make hay while the sun shines:"** In other words, make the most of every moment of your busy season. Set up your life so you can take on as much work as possible while it's plentiful, saving vacations, appointments and non-essential personal activities for the off-season.
- **Ramp up your marketing efforts during slow times.** All small businesses should be doing some marketing or big-picture business planning all year round, but when you have fewer projects on the go, that's the time to make an extra effort, i.e.:
 - Reach out to former clients to communicate your availability and try to pre-book services
 - Network and cold pitch your services to potential clients
 - Do market research to see how you can move into new niches or take on new types of clients
 - Beef up your website, content marketing and social media platforms
 - Try something new, such as starting a podcast, volunteering to be on expert panels, etc.



- **Develop a new off-season niche.** What other skills do you have that you don't use in your original business? Maybe you're a landscaper during the summer, but a great housecleaner or caterer during the winter. It's worth exploring all your talents.
- **Keep your operating costs down.** Do you need to rent an office, lease a truck or upgrade your equipment every year if it's primarily used for a handful of months? What costs can you stand to shave down, particularly when things are slow?

Simple Accounting Tweaks That Help You Get Paid Faster

Perform credit checks. Avoid being stiffed by a bad customer by performing credit checks on all new clients with higher-value projects. Google 'credit screening services' for reputable business that can conduct them for you for \$15-\$30 each.

Know who's responsible for paying you. At the start of a new project, make sure you have the name, phone number, and email of the person who will be processing your invoices. This information can save you a lot of time if you need to address an outstanding invoice.

Sign a contract for every project. Contracts explicitly lay out all the terms of agreement for any project. You and your client will be clear on the scope of the project, how much it will cost and when you will be paid. Here are some tips on creating a contract.



Ask for a deposit for projects. There's nothing wrong with asking for a 30-50% down payment upon signing a contract. You can also invoice at key project milestones. And if you anticipate supply costs or expenses to complete the project, it's fair to ask for payment as you go. Make sure you include deposit terms in your contract.

Be polite. FreshBooks research shows that including simple phrases like, "Please pay within 30 days" and "Thank you for your business!" encourages people to pay up promptly. Plus, it just feels good to be nice.

Accept online payments. Are you still getting paid exclusively by check? FreshBooks research shows you get paid twice as fast when you provide options like credit, debit, Apple Pay, Google Pay, WePay, e-transfer and PayPal.

Charge late fees. Even one late payment can affect your cash flow. Send a strong message to chronically late clients and nip the problem in the bud with others by establishing late fees (usually 2-3%) on your invoice.

Automate follow-up. No one likes the loathsome task of calling or emailing a client who's late to pay. And if you're super busy, you may not remember to follow up or even notice when a payment is late, which can interfere with your cash flow for months. Most cloud accounting software allows you to set up automated follow-ups at pre-determined intervals, saving you time and hassle.

Master days sales outstanding (DSOs). DSOs is a calculation businesses use to estimate how many days, on average, it takes clients to pay their invoices. You can calculate it monthly while you're preparing your profit & loss report. [Here are all the details to help you do this quick but insightful math.](#)



Chapter 05

Take Control of Your Expenses

If you oscillate between being in the red and the black, you're not alone.

Most small business owners struggle to keep expenses down and income up. Once you've determined you're making the most of everything you earn, it's time to turn your attention to your spending habits.

6 Ways to Cut Down on Expenses

Assess existing expenses. If you've begun tracking your expenses and have completed even one profit & loss report, you'll be able to see exactly where you're spending your hard-earned income, on what and for how much. Be ruthless as you assess your expenses: for each item, ask yourself if it's a) necessary to run your business and b) contributes to your profit in some way. If the answer is no, you can probably cut it.

Avoid credit and loans. Sometimes a loan is necessary to finance business-related expenses. But it should be a last resort, not something you turn to every month. Remember that every dollar you spend is one less you have in profit—and when you're paying interest, those dollars add up fast.



Be creative and resourceful. Instead of buying brand new equipment or supplies, consider gently used items. Put a call out to other professionals in your industry to see if you can get a deal on a new desk, swap office furniture or sell your equipment when you upgrade.

Renegotiate lending terms. Connect with your credit provider to make sure you've got the best possible rate. Consider consolidating loans that you have with different institutions. You can also explore the differences between a business loan, line of credit and credit card to be sure you're not paying a penny more than you need to.

Create a business budget. Once you have a better understanding of what you can afford to spend (and still maintain a profit) and when you've assessed what you really need to run your business, you can put together a budget. It's best to break it down into categories (dining, office supplies, software, etc.) and put a monthly limit on each one.

Open a business savings account. When you're in the green, start funneling a percentage of your profit into an investment or savings account. You can turn to it instead of credit cards and loans so your cash flow isn't disrupted when an unexpected expense arises.



Chapter 06

How Cloud Accounting Can Help You Conquer Cash Flow

It's one thing to know what you need to do to create a robust cash flow in your small business...

And it's another thing entirely to actually do it. You might even feel intimidated at the prospect of tracking your income and expenses and creating a profit & loss report.

We don't blame you. And we've got you.

If you've been picturing yourself staring bleary-eyed at a spreadsheet or clumsily tallying up paper receipts and invoices, think again. Getting control of your cash flow is easier than all that. Much easier.

FreshBooks is designed for busy small business owners like you. You're empowered to invoice in seconds. Manage your expenses with ease. Gain insights that'll take your business to the next level. And get paid fast.

You don't need to be a math whiz or a bookkeeper to keep an eye on the important numbers associated with cash flow: income and expenses. We make it easy for you enter them and get on with your day.



How FreshBooks Helps You Track Your Income

It's simple to create and customize an invoice with your logo and signature color. Invoices are automatically organized into sequential order and you can easily ask for a deposit, set up automated late payment reminders and levy late fees. You can even set up recurring payments for regular clients and offer everyone the convenience of paying online.

New Invoice

Save

Send...

Ampersand Foundry

202-555-0118

224 NW 13th Ave

Portland, OR 97209

United States

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Description	Rate	Qty	Line Total
Website design	\$5,000.00	1	\$5,000.00
	+Tax		
	Subtotal	5,000.00	
	30% Discount	-1,500.00	
	Tax	650.00	
	Total	4,150.00	
	Deposit Requested	1,000.00	
	Deposit Paid	0.00	
	Amount Due (USD)	\$4,150.00	

Amount Due (USD)

\$4,150.00

Billed To

Rick Sanders

Garden Contracting LTD.

Invoice Number

100207

Date of Issue

09/12/17

Date Due

10/12/17

Settings

FOR THIS INVOICE

Accept Credit Cards

Let clients pay you online

YES >

Customize Invoice Style

Change template, colour, and font

>

Make Recurring

Bill your clients automatically

>

FOR GARDEN CONTRACTING LTD.

RS

Send Reminders

At Customizable Intervals

YES

Charge Late Fees

Percentage or Flat-Rate Fees

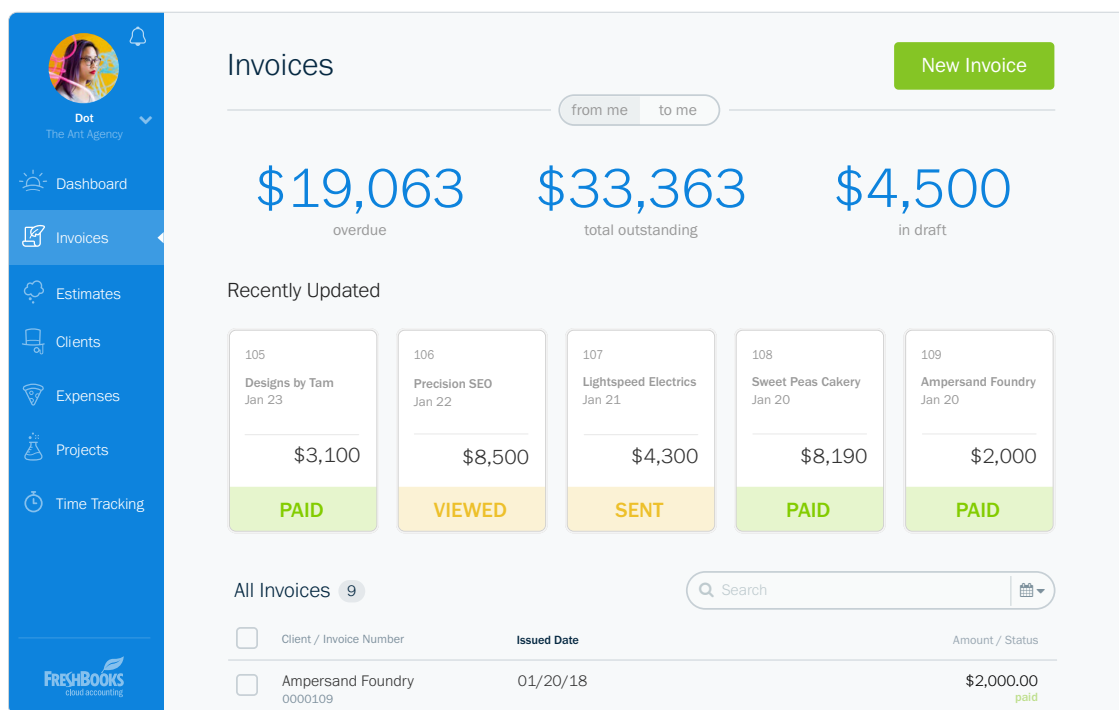
NO >

Currency & Language

USD, English

>

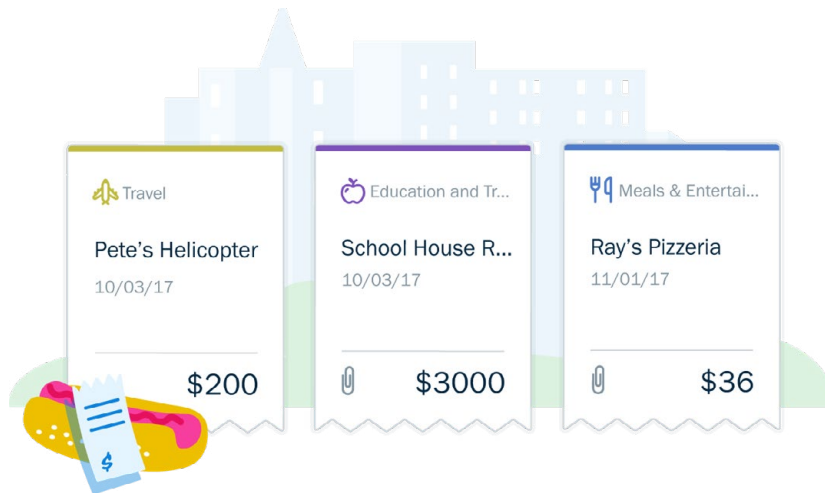
And when you're invoicing through FreshBooks, you always have access to every detail about your income. It's easy have at-a-glance access to what you've earned in any specified period of time, including monthly, quarterly and annually.



How FreshBooks Helps You Track Your Expenses

Get rid of the shoebox or folder overflowing with crumpled receipts. With FreshBooks, it's super easy to enter each expense as you go—you can even snap a quick photo with the mobile app, eliminating the need for all that paper. FreshBooks will digitally store and automatically organize them for you so you'll know, at a glance, what exactly you're spending.

Another great feature? You can categorize your expenses as you enter them, allowing you to see where you're incurring the most cost and making tax time a complete breeze.



Many small business owners have expenses they pay on a regular basis, such as rent for their office space, phone and Internet bills and even employee salaries.

FreshBooks makes it easy to set up a recurring expense so you don't have to manually enter it every time. You can even connect your bank account or credit card so expenses are automatically imported into FreshBooks.

Once you've set things up, the system will learn which expenses belong in which category, so tracking expenses can be completely taken off your to-do list. *Cue angels singing.*

The screenshot shows the FreshBooks Expenses dashboard. On the left is a blue sidebar with navigation options: Dashboard, Invoices, Clients, Expenses (selected), Projects, and Time Tracking. The main area is titled 'Expenses' and features a 'New Expense' button. Below this is a 'Recently Updated' section with five expense cards: Pete's Helicopter (\$200), School House R... (\$3000), Skywriting (\$25), Lightspeed Elec... (\$98), and Ray's Pizzeria (\$36). At the bottom is a table titled 'All Expenses' with 9 items. The table has columns for Vendor / Category, Date / Source, Client / Description, and Amount / Status.

Vendor / Category	Date / Source	Client / Description	Amount / Status
<input type="checkbox"/> Pete's Helicopter Travel	10/03/16	Rick Sanders 0000109	\$200.00 billed
<input type="checkbox"/> School House Rock Education and Training	10/03/16	Rena Tam 0000109	\$3,000.00 billed

How FreshBooks Creates Profit & Loss Reports For You

Did creating a profit & loss report seem daunting to you when you read about it in Chapter 3? Here's an insider secret: When you use FreshBooks to invoice and log expenses, your data will be automatically organized into rich reports that serve up insightful business insights. All you need to do is pick a period of time (e.g. monthly, quarterly, etc.) and let FreshBooks beep boop beep and, voila!

Be a Cash Flow Master in No Time!

With access to all the information, you'll know your precise cash flow—to the decimal point! No more wondering if you're spending too much or making too little. Whether you should wait to purchase that piece of equipment or get it now. Which clients bring in the most income and which clients are literally more trouble than they're worth.

When it comes to balancing income and expenses, seasoned small business owners trust their gut, but successful entrepreneurs understand cash flow and how to make it work for them.

Which one will you be?





Seeing Spreadsheets in Your Sleep?

Rest Easy with FreshBooks

Try It Free

