

NET PROFIT

Net profit is reality, cash flow is life.

Cash Flow starts with Net Income (net profit)

Cash Flow is impacted by these balance sheet items



CASH FLOW

ACCOUNTS RECEIVABLE

If you sell to your customers on terms, how long does it take to collect?

KPI to measure = Days Sales Outstanding

RISK FACTOR: Can have negative impact on cashflow if you don't pay attention.

INVENTORY

Manage your inventory levels

KPI to measure = Inventory Turnover
(the amount of time it takes from inventory purchase to inventory sale)

RISK FACTOR: If it takes too long to turn your inventory to dollars.

ACCOUNTS PAYABLE

How quickly you pay your bills

RISK FACTOR: Being habitually past due

CAPITAL ASSET PURCHASES

The **direct cost of capital assets** won't show up as part of your net profit. These items impact the balance sheet as long term assets.

RISK FACTOR: Having little knowledge on cash requirements and financing.

LOANS AND DEBT SERVICING

Debt reduction is only reflected on the balance sheet, but certainly impacts your monthly cash flow.

RISK FACTOR: Not understanding your monthly debt requirements will negatively affect your cash flow.

OTHER "ACCRUAL" TIMING

Talk to your accounting team or outside CPA to make sure you **understand all the balance sheet accounts** that could be putting the breaks on your cash flow.