



3 Types of Cash Flow and the Best Way to Track Them

Tracking money in and out of your business may seem simple, but it can become complicated. A company's cash flow helps evaluate its overall financial health. Knowing how cash flow affects your business can be just as important as finding the right management strategy.

Cash flow is divided into three different types. These type assists business owners in tracking how money affects their company and its overall health. If you can accurately project your cash flow, you can make sound decisions for your company's future and create an overall business strategy. Here are the 3 types of cash flow:

1. **Cash flow from operations.** This may be the most familiar form of cash flow. Cash flow from operations (CFO), or operating cash flow, is the money that comes into your business from sales of your products or fees for services you provide. Expenses like employee salaries, taxes, and purchased inventory are subtracted from this revenue. The bottom line is that operating cash flow indicates if a business has enough money coming in to cover its bills.
2. **Cash flow from investing.** Investing cash flow can refer to investments your company makes in securities, like stocks or bonds. It can also refer to investments in equipment, property, or other assets needed to run your business. Inflows and outflows of this money are calculated by the purchasing and selling of these assets. But cash flow from investing (CFI) can be tricky to evaluate. For example, businesses can have money tied up in activities like research and development for years.
3. **Cash flow from financing.** You must account for financing cash flow if investors or loans fund your business. Inflow is created by taking on debt or investing to finance your business. Outflow is the dividends paid to investors or payments you make on loans. Cash flow from financing (CFF) is generally used to show investors how your company's capital is managed.

You should be consistent whether you track cash flow by hand or with bookkeeping software. Developing a system that works for you can give your business a strong foundation for success. Simplifying the process can help you focus on growing your business.

Managing your small business is a lot of work, but there are many tools to help. Find your best practices, evaluate your business strategy regularly, and outsource when necessary. If you want to learn to manage and track your cash flow without stress, I can help. Schedule a call today!