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Cash Flow Management Basics

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Your Presenter



Alberto Casadei is a seasoned engineer with extensive experience in the energy sector. He holds an MBA, a degree in Mechanical Engineering, and advanced degrees in Nuclear Engineering. Before retiring, he worked at Westinghouse Electric Company, where he held senior roles in Engineering Management, Product Development, and Business Development, both domestically and internationally. Additionally, he served as a consultant for the International Atomic Energy Agency (IAEA), providing expertise in Nuclear Fuel Management and Core Design for commercial nuclear power plants in China and South Korea.

Since 2013, Alberto has been a certified mentor with SCORE, where he supports entrepreneurs and promotes business growth.

Cash Flow Management Basics

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Topics

- Business Financial Statements
- Understanding and Managing Cash Flow
- Cash Flow Optimization Strategies
- Financial Planning
- Key Takeaways
- Q&A

Business Financial Statements

The Financial Statements describe the state of your business

Income Statement

(Profit & Loss Statement)

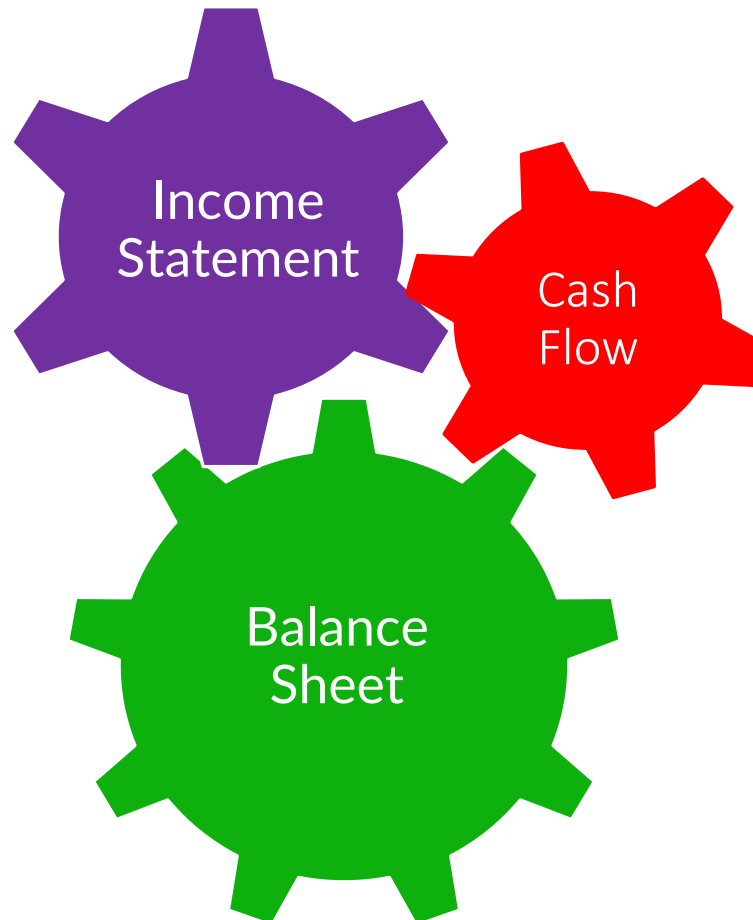
summarizes the revenues, costs and expenses during a specified period

Are you making a profit?

Balance Sheet

It reports a company's assets, liabilities, and equity at a single moment in time.

Is the business building wealth?

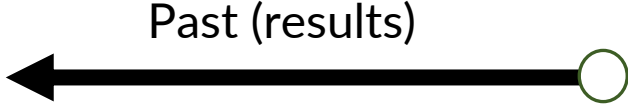


Cash Flow Statement

It tracks the inflow and outflow of **cash** resulting from operating, investing and financing activities during a given time period

Is there enough cash to run the business?

Types of Accounting and Their Roles



FINANCIAL ACCOUNTING	
Summarizes historical financial data	Purpose
Creates financial statements	Role
Actual Business Results	Data
GAAP rules and standards	Assumptions
Accountant/Software	Who Performs
External to Company	Users
Quarterly/Yearly	Frequency

Types of Accounting and Their Roles



FINANCIAL ACCOUNTING		MANAGEMENT ACCOUNTING	
Summarizes historical financial data	Purpose	Focuses on internal decision-making	
Creates financial statements	Role	Generates financial information for strategic decisions	
Actual Business Results	Data	Forecast Business Results	
GAAP rules and standards	Assumptions	Management Assumptions	
Accountant/Software	Who Performs	Owner/Manager	
External to Company	Users	Internal to Company	
Quarterly/Yearly	Frequency	As-Needed	

Understanding and Managing Cash Flow

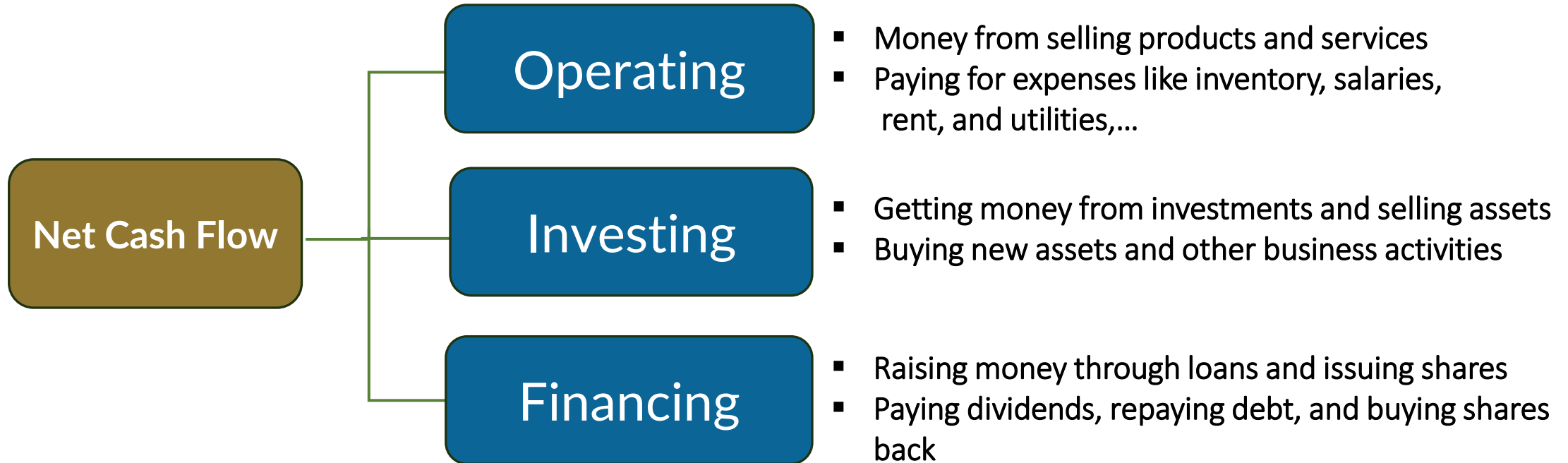
Cash Flow

Cash flow is the movement of money into and out of your business during a defined period of time

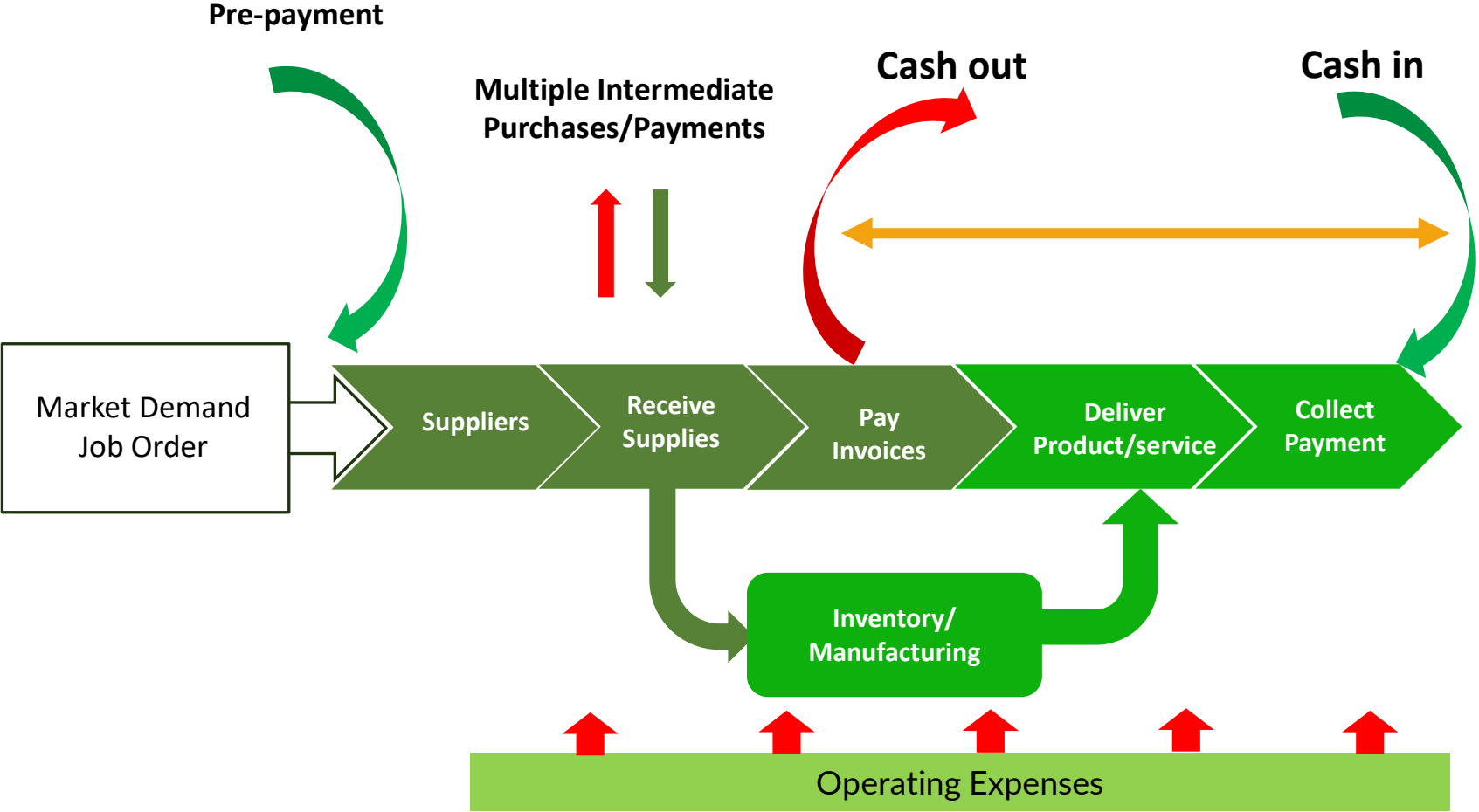
The Critical Role of Cash Flow in Business Success

- **Ensuring Financial Health:** Understanding and managing the generation and usage of cash effectively.
- **Maintaining Operational Stability:** It ensures timely payment of bills, employee salaries, and essential expenses.
- **Supporting Growth and Resilience:** Adequate cash flow allows businesses to fund expansions, handle emergencies, and navigate uncertainties.
- **Preventing Business Failure:** Addressing cash flow gaps is critical, as they are a common cause of business closures

Cash Flow Components



Operating Cash Flow Cycle

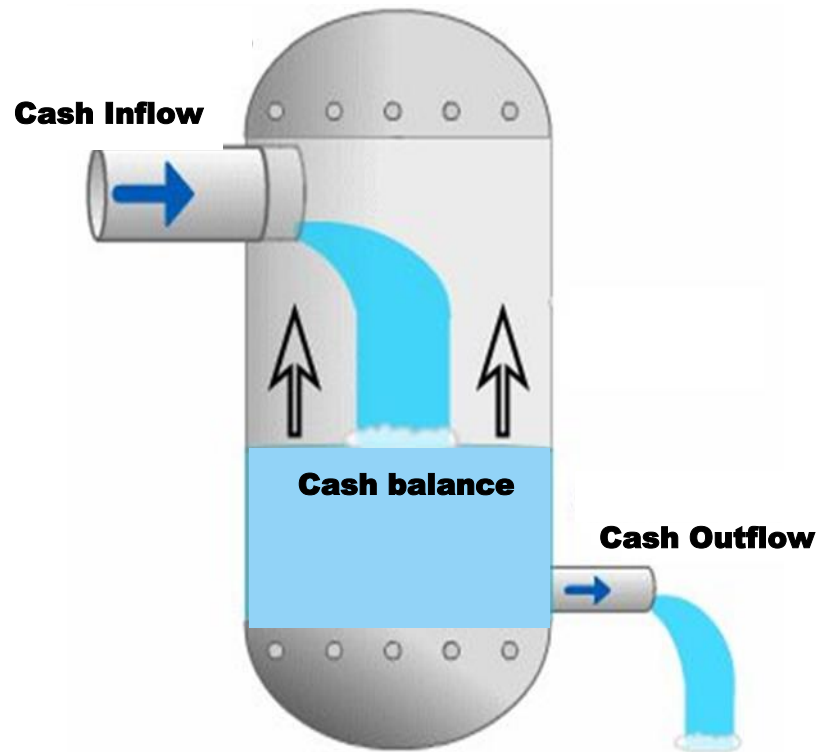


Cash Flow Management

- Effective cash flow management involves the **monitoring**, **controlling**, and **optimizing** of an organization's financial inflows and outflows.
- The aim is to guarantee that the organization has sufficient cash to address its **immediate and future** requirements.

Cash Flow Management

Key reasons for CF Problems



- Inadequate Planning
- Low Profitability
- Uncontrolled Business Growth
- Bad Inventory Management
- Late Client Payment
- Insufficient cash reserve

Cash Flow Forecast and Monitoring

Period: 2Q 20XX

Category	Description	Amount
	Beginning Cash Balance	\$10,000

Cash Flow Forecast and Monitoring

Period: 2Q 20XX

Category	Description	Amount
Beginning Cash Balance		\$10,000
OPERATIONS		
Sales Revenue	Cash from selling goods or services	\$100,000
COGS	Cash for the materials and labor to produce the goods or services	(\$40,000)
Operating Expenses	Cash for the general and administrative expenses	(\$20,000)
Interest Expense	Cash for the interest on loans	(\$5,000)
Income Tax	Cash for the taxes	(\$10,000)
	Cash flow from Operations	\$25,000

Cash Flow Forecast and Monitoring

Category	Description	Amount
INVESTING		
Purchase of equipment	Cash for buying new equipment	(\$30,000)
Sale of land	Cash from selling land	\$10,000
	Cash flow from Investing	(\$20,000)
FINANCING		
Dividends paid	Cash for shareholders	(\$10,000)
	Cash Flow from Financing	(\$10,000)
Net Cash Flow	$\$25,000 + (\$20,000) + (\$10,000)$	(\$5,000)
Ending Cash Balance		\$5,000

Cash Flow Optimization Strategies

Cash Flow Optimization Strategies

Three principal Strategies help ensure robust cash flow:

- Accelerating Cash Collection
- Slowing or Delaying Cash Outflows
- Maintaining Efficient Inventory

Accelerating Cash Collection

The faster cash is received after a sale, the sooner it can be reinvested in the business. Key tactics include:

- Streamlined Invoicing Processes
- Establishing Clear Payment Terms and Policies
- Providing Incentives for Early Payments
- Proactively managing accounts receivable
- Offering Multiple Payment options
- Utilizing Factoring and Invoice Financing
- Assessing customer creditworthiness before extending credit

Slowing or Delaying Cash Outflows

Controlling the timing of outgoing payments is as important as accelerating incoming cash. Effective methods include:

- Negotiating longer payment terms with suppliers
- Taking advantage of early payment discounts only when beneficial
- Prioritizing essential expenses
- Strategically Timing major purchases
- Managing payroll cycles efficiently
- Leveraging supplier credit

Maintaining Efficient Inventory

Striking the right balance is critical—excess inventory ties up capital, while insufficient inventory can result in lost sales and dissatisfied customers. Best practices include:

- Implementing just-in-time (JIT) inventory systems
- Utilizing inventory management technology
- Applying demand forecasting and analytics
- Conducting regular inventory audits
- Pursuing strategic sourcing and supplier diversification
- Exploring inventory financing options

Financial Planning

Components of Financial Planning

Operations Budgeting

Cash Flow Management

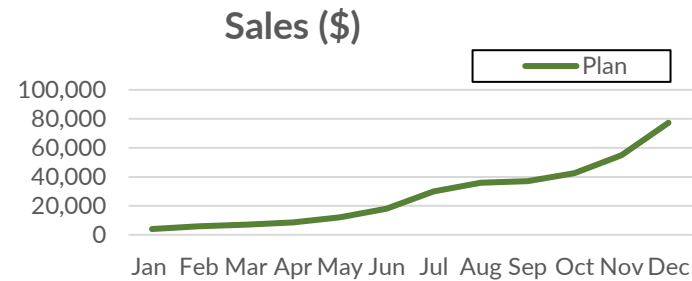
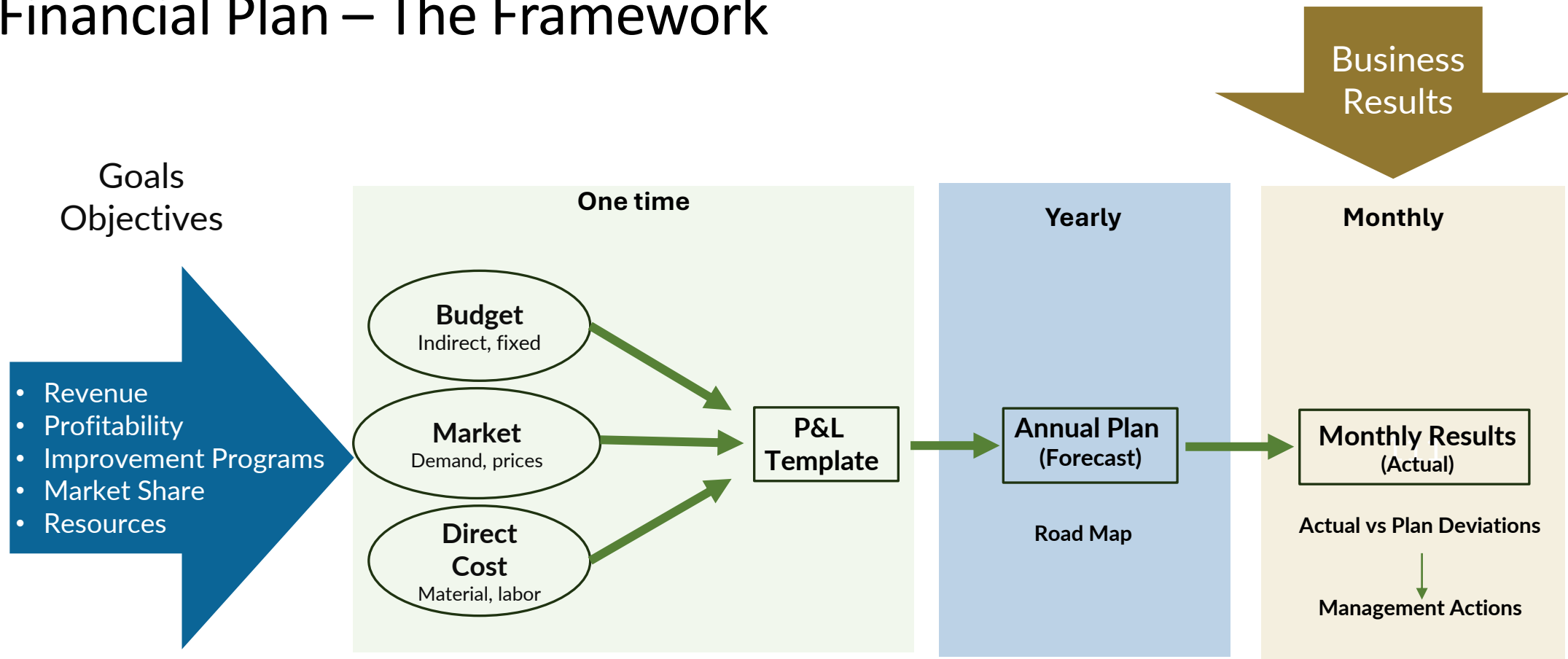
Risk & Contingency

Capital Expenditure (CapEX)



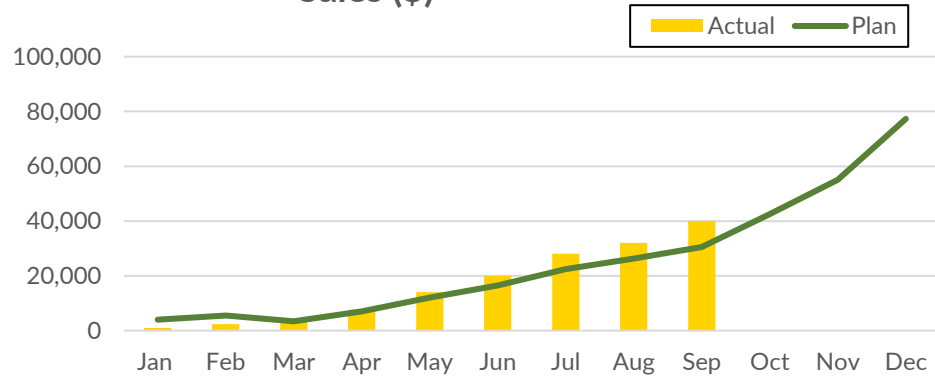
"A strong financial plan is a blueprint for sustainable growth and resilience."

Financial Plan – The Framework

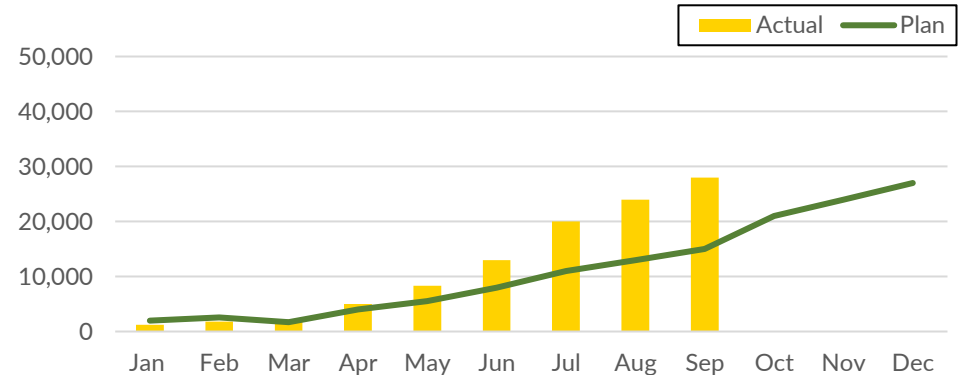


Financial Plan

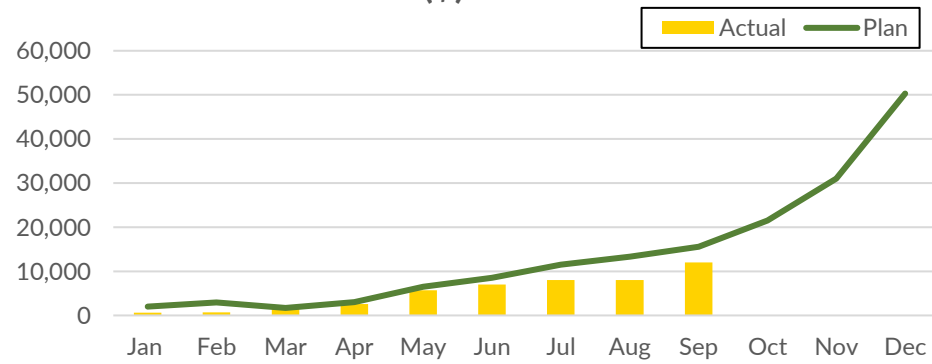
Sales (\$)



Expenses (\$)



Net Profit (\$)



Steps to Managing Cash Flow

1 **Establish a template tailored to your business:**

Create a 3-month look-ahead cash flow framework to project revenues and expenses.

Some businesses may need to be done weekly, covering a 13-week span.

2 **Conduct a 3-Month Rolling Analysis:**

Update the framework regularly with actual results.

Compare your forecasts with actual outcomes to identify variances

3 **Understand Cash Flow Results:**

Analyze forecasts to pinpoint potential issues.

Take proactive steps to prevent cash shortages

Cash Flow Forecast Simulation

Starting point

		Estimate	Estimate	Estimate		
		Month 1	Month 2	Month 3	Month 4	Month 5
Inflow Cash						
Revenue						
Loan						

Inflow Total

Outflow Cash						
Rental						
Payroll						
Utilities						
Professional Services						
Materials						
New equipment						

Outflow Total

Net Cash Flow						
Beginning Balance						
Ending Balance	1,000					

Step 1 - Initial 3-month forecast

		Estimate	Estimate	Estimate		
		Month 1	Month 2	Month 3	Month 4	Month 5
Inflow Cash						
Revenue		10,000	20,000	21,000		
Loan		15,000				
Inflow Total		25,000	20,000	21,000		
Outflow Cash						
Rental		(1,000)	(1,500)	(1,500)		
Payroll		(3,000)	(4,000)	(5,000)		
Utilities		(2,500)	(2,500)	(2,500)		
Professional Services		(5,000)	(500)	(1,000)		
Materials		(12,000)	(12,000)	(12,500)		
New equipment						
Outflow Total		(23,500)	(20,500)	(22,500)		
Net Cash Flow		1,500	(500)	(1,500)		
Beginning Balance		1,000	2,500	2,000		
Ending Balance	1,000	2,500	2,000	500		

Watch!

Cash Flow Negative and growing

Step 2 – Add Month 4

		Actual	Estimate	Estimate	Estimate	
		Month 1	Month 2	Month 3	Month 4	Month 5
Inflow Cash						
Revenue		12,000	19,000	21,000	40,000	
Loan		15,000				
Inflow Total		27,000	19,000	21,000	40,000	
Outflow Cash						
Rental		(1,000)	(1,500)	(1,500)	(1,500)	
Payroll		(3,000)	(4,500)	(4,000)	(6,000)	
Utilities		(2,500)	(2,500)	(2,500)	(5,000)	
Professional Services		(5,500)	(500)	(2,000)	(500)	
Materials		(12,000)	(12,000)	(12,500)	(14,000)	
New equipment					(20,000)	
Outflow Total		(24,000)	(21,000)	(22,500)	(47,000)	
Net Cash Flow		3,000	(2,000)	(1,500)	(7,000)	
Beginning Balance		1,000	4,000	2,000	500	
Ending Balance	1,000	4,000	2,000	500	(6,500)	

Warning!

Plan may not be viable

Step 3 – Add Month 5

		Actual	Actual	Estimate	Estimate	Estimate
		Month 1	Month 2	Month 3	Month 4	Month 5
Inflow Cash						
Revenue		12,000	19,000	21,000	40,000	49,000
Loan		15,000				
Inflow Total		27,000	19,000	21,000	40,000	49,000
Outflow Cash						
Rental		(1,000)	(1,500)	(1,500)	(1,500)	(1,500)
Payroll		(3,000)	(4,500)	(4,000)	(6,000)	(6,500)
Utilities		(2,500)	(2,500)	(2,500)	(5,000)	(5,500)
Professional Services		(5,500)	(500)	(2,000)	(500)	(500)
Materials		(12,000)	(12,000)	(12,500)	(14,000)	(14,500)
New equipment					(20,000)	
Outflow Total		(24,000)	(21,000)	(22,500)	(47,000)	(28,500)
Net Cash Flow		3,000	(2,000)	(1,500)	(7,000)	20,500
Beginning Balance		1,000	4,000	2,000	500	(6,500)
Ending Balance	1,000	4,000	2,000	500	(6,500)	14,000

Warning!

Evaluate potential solutions:

- Delay equipment
- Lease or find used
- Short term loan

TIPS

- **Plan Ahead:** Develop Your Strategy Proactively
- **Keep it Simple:** Use a Basic Template and Realistic Scenarios
- **Refine Your Process:** Test and Adjust Regularly
- **Be Persistent:** Commit to Ongoing Cash Management

If you have a complex business or need to derive cash flow from Profit & Loss forecasts, consult your CPA for assistance

Key Takeaways

Effective Financial Management for Business Success

- **Develop an Annual Financial Plan**

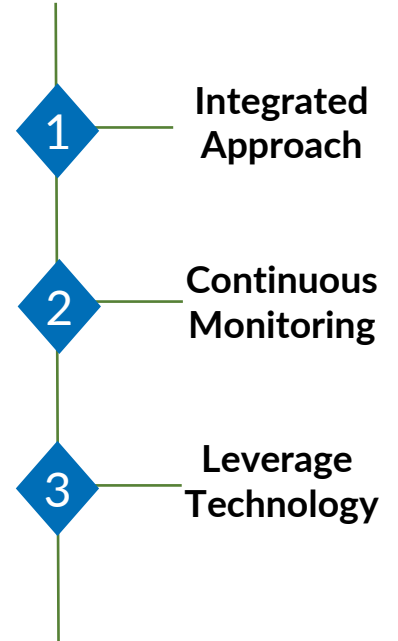
- Create a comprehensive Profit & Loss forecast for the fiscal year to serve as your financial roadmap.
- Set clear, ambitious, yet realistic business targets to guide your strategic decisions.

- **Implement Monthly Financial Reviews**

- Conduct monthly reviews of actual vs. projected Profit & Loss performance.
- Use this data to track progress and make informed adjustments in real time.

- **Maintain Positive Cash Flow**

- Use a 3-month rolling cash flow forecast to anticipate challenges and maintain liquidity.
- This proactive approach helps ensure financial stability and operational flexibility



Strategic Business Practices for Growth

- **Drive Profitable Sales**

- Prioritize sales initiatives that yield strong profit margins.
- Enhance product value and align pricing strategies with market expectations and profitability goals.

- **Adopt Proactive Management**

- Identify and act on opportunities for cost savings and process improvements.
- Build and maintain strong relationships with stakeholders to foster sustainable growth.

SCORE mentors can help you

- Find SCORE resources for small businesses at www.score.org/templates-resources
- Find more SCORE live and recorded workshops and courses at www.score.org/get-business-training
- Book an appointment with a SCORE mentor at www.score.org/find-mentor



THANK YOU FOR YOUR PARTICIPATION

Questions?

Template – score.org/templates&resources/cash flow

12 Month Cash Flow

Cash Flow (12 months)	Pre-Startup EST.	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Total Item EST
Cash on Hand (beginning of month)		0	0	0	0	0	0	0	0	0	0	0	0	
CASH RECEIPTS														
Cash Sales														
Collections fm CR accounts														
Loan/ other cash inj.														
TOTAL CASH RECEIPTS	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash Available (before cash out)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CASH PAID OUT														
Purchases (merchandise)														
Purchases (specify)														
Purchases (specify)														
Gross wages (exact withdrawal)														
Payroll expenses (taxes, etc.)														
Outside services														
Supplies (office & oper.)														
Repairs & maintenance														
Advertising														
Car, delivery & travel														
Accounting & legal														
Rent														
Telephone														
Utilities														
Insurance														
Taxes (real estate, etc.)														
Interest														
Other expenses (specify)														
Other (specify)														
Other (specify)														
Miscellaneous														
SUBTOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loan principal payment														
Capital purchase (specify)														
Other startup costs														
Reserve and/or Escrow														
Owners' Withdrawal														
TOTAL CASH PAID OUT	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash Position (end of month)	0	0	0	0	0	0	0	0	0	0	0	0	0	0



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