

MANAGING CASH FLOW

‘Healthy habits toolkit’



WELCOME

Welcome to the 'Healthy habits toolkit'. We'll guide you, step by step, through small business finance with bite-sized content that helps you understand YOUR numbers and build financial confidence.

Using the toolkit

1. Download the toolkit.
2. Use it on any device or print it off if you prefer.
3. Work through the activities to build the financial habits, skills and mindsets that will help your business succeed.



Look out for...



Habit builder

Activities that help you track your business's financial health and make informed decisions.



Mindset

Activities that help you build the mindsets you need to stay focused and tackle challenges head-on.



Tell me more

Additional resources and real-world examples from other small business owners.

Reaching out for support

If you need support or advice along the way:

- Talk to an accountant or bookkeeper for financial advice and help with planning your next steps. If you don't have one, you can apply for free mentoring through the [**Xero For Good Ambassador Program**](#)
- Explore [**resources from the Australian Government, covering financial management, cash flow templates, and business owner mental health/wellbeing**](#)
- Access [**free small business guides from the Australian Taxation Office**](#)
- Check out our [**frequently asked questions**](#)
- Access [**services to help if you are experiencing financial difficulties**](#)

If you are reading a printed version of this toolkit, you can find the full URLs for all the internet pages linked above in the [**appendix**](#) at the end.



The information provided is for general educational purposes only and should not be considered financial, legal, or tax advice. Please consult with a professional before making financial decisions.



MANAGING CASH FLOW

In this topic, you'll build the skills, knowledge and mindset you need to build cash flow confidence step by step.

You'll learn what cash flow is, why it matters, and how to manage it in simple, practical ways. We'll also guide you through activities that will help you:

- Understand what cash flow is and how it differs from profit
- Build a proactive money mindset
- Create and test your own cash flow forecast
- Try out new strategies to improve your day-to-day cash position

Work your way through the 'Healthy habits toolkit' and take your first steps to financial confidence.

Choose where to start:

Select any of the five headings below to get started.



Use the interactive buttons and topic menu to move through the toolkit or scroll down to read the pages in order.



UNDERSTANDING CASH FLOW VS CASH

Cash and cash flow are not the same thing. When we talk about cash flow, we're talking about the movement of money in and out of your business over time.

It's not just about having enough cash, it's about having it at the right time.

Understanding your business's cash flow helps you make sure you can cover expenses when they're due.

Insufficient cash flow can:

- prevent you from paying wages
- stop you from buying the goods you need to resell or operate
- prevent you from paying your bills, such as utilities or rent
- cause you to take out a loan for your short-term obligations (or costs)
- create problems in your personal finances, or the need to use personal funds and credit cards to pay for essential expenses.

Reframing cash flow



Cash flow challenges can sometimes feel personal – but they're a normal part of running a business.

It's common for business owners to think things like:

**"If I need help,
it must mean I've
failed."**

**"I should always
have money
available."**

**"Asking about
payment terms
might look
unprofessional."**

In reality, these are just common worries many business owners share – not signs that you're doing something wrong. And unfortunately, they can also stop you from making smart decisions.

The truth is: **proactively spending time managing your cash flow is a strength, not a weakness. It creates freedom, not constraints.**

Think about it



Write down one unhelpful thought or belief you've held about cash flow and the impact it's had on your decision-making.

Here are some common beliefs when faced with cash flow challenges, and what you can do to challenge your thinking:



Belief



Challenge your thinking

I can't ask for help; other businesses don't care if I succeed

Asking for help is a strength – most owners share advice gladly, and support builds trust and connection

Not having enough money to pay for things is a personal failure

Cash flow gaps are business issues, not personal flaws – treat them as signals to adjust, not signs of failure

No one else seems to be struggling to pay their bills

Many businesses face cash struggles; you just don't always see it. Struggles are normal and solvable

If I chase my customers for payments, they might not come back

Following up is professional, not pushy – good customers respect clear terms and timely reminders

What cash flow is

Cash flow is the movement of money in and out of your business, and it's all about timing.



Money in

This is any money your business receives, such as from sales, customer payments, loans, interest or grants



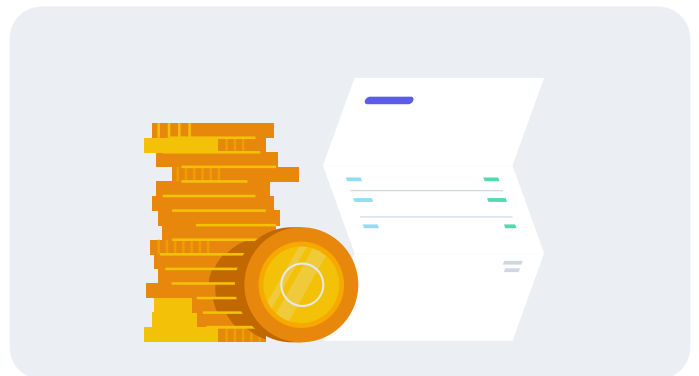
Money out

Any expense, such as wages, rent, bills, supplies, buying assets or paying taxes, is money out.

The difference between cash flow and profit



Profit shows if your business earned more than it spent over a period of time.



Cash flow shows if you have money available right now to pay today's bills.



Think of profit as your fitness level, showing your overall condition over time, and cash flow as your heartbeat, indicating what's happening right now and if you can keep going. You need both to stay healthy.

- [What is cash flow?](#)

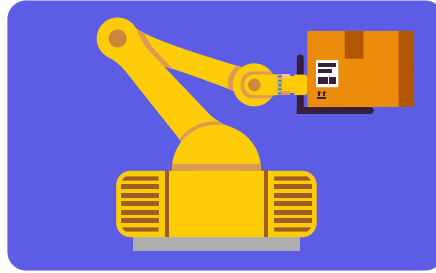


What affects cash flow

Three things affect the amount of cash in a business.



Operations – money your business earns from selling your products or services, minus the everyday costs of delivering them.



Investments – money spent on big things your business owns, like equipment or real estate. You might also get money back if you sell these later.



Finance – money your business borrows (like loans) or receives from owners, less what you pay back (loan repayments or owner dividends).

Most cash flow should come from operations, as it isn't sustainable to rely on loans or asset sales.

However, short-term finance can sometimes be used proactively if other strategies won't cover a forecast gap.



Cash flow forecasting helps you spot the best times for larger purchases and where shortfalls may occur. If you see a gap coming, you can plan ahead – adjusting your strategies, seeking advice, or using short-term finance wisely.

Cash flow in your business

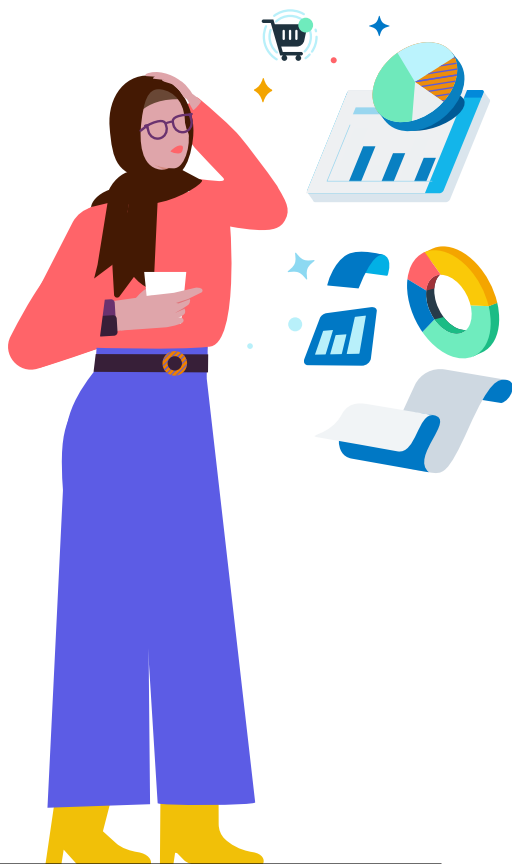
Consider how cash is moving through your business today and the actions you take to manage it.



- Where does most of your cash come from?
- Do you know when most of your bills are due?
- Do you track which customers owe you money?
- Do you plan for seasonal highs and lows, for expenses and payments?

Note which actions you're already taking. Pick one new action that could help build your understanding of cash flow in your business and set a reminder to do it monthly for the next three months.

Even a successful business can run into trouble if it doesn't have good cash flow to cover its expenses.



Cash flow challenges can be overwhelming, but they don't need to be

Cash flow challenges are a real worry for many small business owners, and it's normal to feel the pressure when money is tight. Poor cash flow can impact your ability to pay expenses on time and may even spill over into your personal finances. The important thing to remember is that you're not powerless – building healthy cash flow habits and seeking support can make a big difference.



Staying on top of your cash flow is essential. For you, and for your business.

ASSESSING CASH FLOW

A business needs good cash flow to pay bills and keep trading. Having spare cash gives you the opportunity to pursue new opportunities. Good cash flow also alleviates a lot of financial stress and risk.

Controlling your cash flow begins with regular habits. Here are some healthy habits to try:



- **Daily:** check your bank balance and note any unexpected changes and send invoices as soon as work is done
- **Weekly:** review money in and money out for the next 7 days
- **Monthly:** check overdue invoices and follow up

Pick two habits and commit to doing them for the next 30 days, then reflect on what you've learned from measuring your cash flow.

Assessing cash flow

Measuring something is often the first step in managing it. When measuring cash flow, there are two different tools to be aware of. You can look forward by creating a cash flow forecast or look backward by preparing a cash flow statement.

Cash flow forecasts

These forward-looking tools break down money you expect to receive and money you expect to spend over time to predict how much money a business will have in the future.

The cash flow forecast at a glance

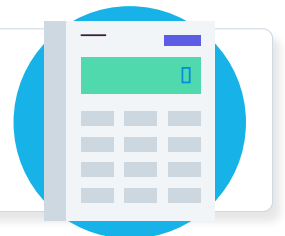
Starting balance



Net cash flow
(Money in - money out)



Closing
balance



Want to know more about cash flow forecasts?

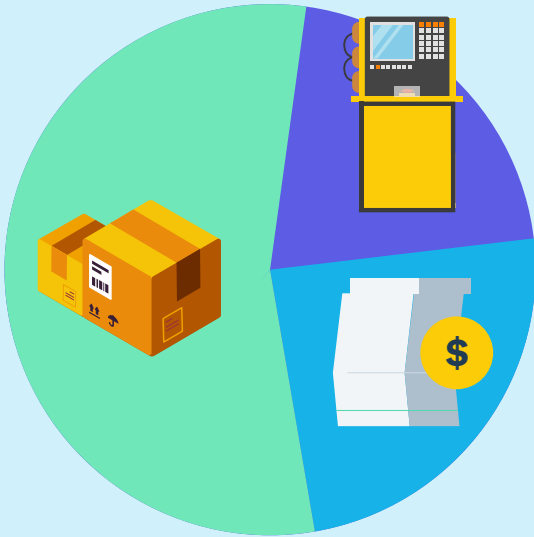


- [What is a cash flow forecast?](#)
- Download a [cash flow forecast example](#)

Cash flow statements

Cash flow statements review the past month, quarter, or year to show how cash was generated and how it was spent.

At the highest level, it will show which proportion of cash came from:



- selling goods and services (operations)
- taking loans or selling shares in the business (finance)
- selling assets like machinery or real estate (investing)

This can help you check that cash flows are sustainable and not overly reliant on borrowing.

Want to know more about cash flow statements?

- [What is a cash flow statement?](#)
- [Cash flow statement example](#)



HOW DO I CREATE A CASH FLOW FORECAST FOR MY BUSINESS?

Your first cash flow forecast can be simple.

- Grab a pen and paper or a calendar to create your statement
- Start with your numbers:
 - Write your starting bank balance at the top of the page
 - Gather your past sales figures, seasonal patterns and planned expenses
 - List all the cash you're expecting to receive during the week or month that you're forecasting (money in)
 - Then, list all the cash you're expecting to spend over the same period and the due dates (money out)
- Check that irregular costs, such as tax bills, annual fees or other planned expenses, are included
- Total the money in and money out
- If your money in is higher than money out, then add it to your starting bank balance. If it's lower, then subtract from your starting bank balance. That is your forecast closing bank balance.



Once you have your forecast, review it for warning signs and take action early if you spot any challenges.

Using a template

Once you understand the essentials, it's easy to level up your cash flow forecast using a template.



- Download a copy of our cash flow forecast template
- Follow the prompts in the template

Commit to checking in at the end of each month to compare what you forecast and what happened.



- What did you notice?
- What do you want to change next month?
- Is monitoring monthly frequently enough? If your business needs to focus on cash flow, you may need to monitor it on a weekly basis.



There are many tools and software that can help you monitor and even automate cash flow statements and forecasts. When you're ready, explore accounting software and choose one that suits your business.

BUILDING BETTER CASH FLOW HABITS

Cash flow can be managed. You can't always control when money comes in, but you can set yourself up for success using strategies to improve cash flow and manage spending.



Improving money in

Think about all the ways your business receives money and the processes behind it. Let's look at how you could adjust your processes to improve your cash flow.

Payment terms

Cash flow is all about timing, and when it comes to invoicing, your payment terms have an impact. Thinking about your payment terms:

- Do your customers usually pay on time?
- What is the impact when customers pay late?
- If all your customers paid on time, would your current payment terms allow you to manage your cash flow?

Adjusting your payment terms can reduce the average time it takes you to get paid and improve the frequency of money coming in for your business.

Consider:



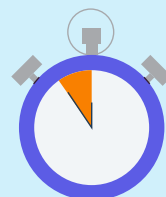
Encouraging payments sooner by reducing the number of days you give people to pay



Discouraging delays by adding penalties for late payments



Giving customers a reason to pay before the due date, by offering an incentive (such as a discount) for early payment



Starting the payment clock earlier, by invoicing as you go, rather than waiting until the end of a week or month

Payment options

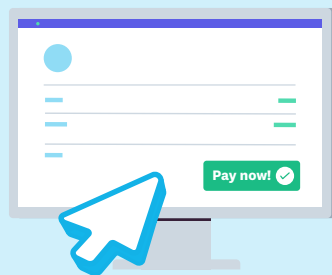
Have you ever wanted to buy something but had to put it off because the payment options weren't convenient? For example, you might stop for a coffee at a small coffee cart that only accepts cash payments.

Knowing how your customers prefer to pay can help them pay on time – or even early – and encourage them to return.

Here are some things you can try:



Add more ways to pay, such as credit and debit cards, direct debit, bank transfers, mobile wallets, and buy now-pay later options



Reduce the friction of paying by adding 'pay now' options to your invoices



Ask your customers how they like to pay – then make sure you offer those payment methods

Read the research on how consumers want to pay, and how small businesses make and collect payments



- [I want to pay that way](#)

Generating demand

More sales mean more money flowing into your business, so it's important to focus on generating demand. This might involve marketing and advertising, improving your website, partnering with other businesses to expand your reach, creating loyalty programs, learning new skills, or using customer feedback to build your reputation.

It doesn't always require big spending – regular actions like posting helpful content, following up with past customers, or attending local events can also make a real difference.

Think about:

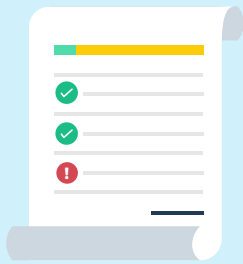
- What do you currently do to increase demand?
- What is one way you could test generating more demand?
- What would you expect to happen – how will you know if it's working?
- What longer-term action could you build into your healthy habits to keep growing demand and expanding your reach?



Credit management processes

Getting paid late hurts your cash flow by slowing income and adding extra work. Review your credit management processes – such as doing customer credit checks, tracking invoices regularly, and sending timely reminders – to stay on top of payments.

To use your credit management processes to improve cash flow, consider:



Setting clear payment terms that include when credit checks are required and what happens if early or late payments occur



Automating payment reminders, via email or SMS, before invoices are due to keep payments front-of-mind for your customers



If you're selling to a customer for the first time, consider asking for payment upfront until a relationship is established

Managing money out

Bringing more money into your business can be tricky, but you usually have more control over how you spend it.

Before spending your cash, think about:

Money out	Consider	Why?
Paying invoices	Pay on time (or early if there's an incentive)	Paying on time builds goodwill. Paying early without an incentive reduces your cash on hand.
Making large purchases	Spread the expense over multiple payments	Several smaller payments have less impact on day-to-day cash flow than one large payment.
Making large purchases	Consider less-permanent options	Can you rent, use a service contract, or split the cost? Buying isn't always the only way to get what you need, and alternatives can keep more cash on hand.
Reducing your current cash to nil	Keep an emergency buffer	Delaying expenses and maintaining some cash means you can cover unexpected costs without penalties or short-term loans.
Making payments to ongoing suppliers	Negotiate better credit terms	Paying suppliers reliably on time can help you secure better terms, thereby improving your cash flow.
Purchasing stock	Avoid holding more stock than necessary	Extra stock ties up cash, may increase insurance costs, and could become outdated before it can be sold. Sometimes holding more is justified, but weigh the benefits against the impact on cash flow.

YOUR CASH FLOW ACTION PLAN

At the beginning of the toolkit, you reflected on your thoughts and beliefs about cash flow. Do you still feel the same way? Why or why not?



How does this new belief change the way you see your business finances?

What strategies have you tried to manage your cash flow better?

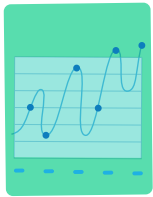
What has been the impact?

Putting it all together



Strengthen your habits

- Choose two daily or weekly cash flow habits (for example, check your bank balance, follow up overdue invoices).
- Which habit helps you feel more in control?



Forecast and monitor

- Create a simple cash flow forecast (using pen and paper or a template).
- At the end of the month, compare your forecast with reality.
- What was the biggest surprise, and what can you adjust for next time?



Improve money in

- Review your invoicing and payment terms – try one change to speed up payments.
- What happened when you tried this change?



Manage money out

- Look at upcoming expenses and see if you can spread, delay, or negotiate terms.
- How much buffer did this create?



Review and commit

- Decide: What will you **continue, stop, or try** next for the next 30 days?
- What's the single most valuable cash flow habit you'll keep building?

APPENDIX

Cash flow forecast example

<https://www.xero.com/au/templates/cash-flow-forecast-template/>

Cash flow statement example

<https://www.xero.com/au/example/cash-flow-statement/>

Free small business guides from the Australian Taxation Office

<https://www.ato.gov.au/tax-and-super-professionals/for-tax-professionals/prepare-and-lodge/tax-time/tax-time-toolkits/tax-time-toolkit-small-business/small-business-guides>

Frequently asked questions

<https://financialfitness.xero.com/en-au/contact>

I want to pay that way report

<https://www.xero.com/nz/campaign/i-want-to-pay-that-way>

Resources from the Australian Government, covering financial management, cash flow templates, and business owner mental health/wellbeing

<https://business.gov.au/finance>

Services to help if you are experiencing financial difficulties

<https://moneysmart.gov.au/>

What is a cash flow forecast?

<https://www.xero.com/au/guides/cash-flow-forecasting/>

What is a cash flow statement?

<https://www.xero.com/au/glossary/cashflow-statement/>

What is cash flow?

<https://www.xero.com/au/glossary/cash-flow/>

Xero For Good Ambassador Program

<https://knowyournumbers.xero.com/en-nz/join-mentorloop>



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