the customer doesn't pay until March, the income statement will show the sale in December but the cash flow statement won't show the sale until March, when the cash flows into the business.

Depreciation, as you've learned, is a non-cash-flow expense—no cash is actually going out. If depreciation is deducted from an income statement, therefore, the income statement no longer accurately reflects how much cash the business is holding. On your cash flow statement, therefore, you will need to add back the amount you deducted from the income statement as a depreciation expense.

The cash flow statement is divided into three sections:

- The first section records all sources of cash that come into the business and indicates the actual dates when they are received. These are cash inflows, or receipts.
- The second section reports cash outflows that must be made within that month—insurance payments, interest payments, cost of goods sold, monthly salaries, and the like.
- The third section shows the net change in cash flow before and after taxes. The entrepreneur can see whether the business had a positive or negative cash flow that month.

Cash flow is the lifeblood of your business. Run out of cash and you're dead.

Next, you'll learn how to use a balance sheet to keep an eye constantly on two ratios—quick and current—that tell you whether your cash on hand is getting too low to cover your debts.

THE BALANCE SHEET: A SNAPSHOT OF THE BUSINESS

Unlike the income statement and the cash flow statement, which entrepreneurs prepare monthly, the balance sheet is typically prepared at the end of the business's fiscal year. The fiscal year is the twelve-month accounting period chosen by the business. The fiscal year may differ from the calendar year (January 1 to December 31). Many businesses use a fiscal year that runs from October 1 to September 30. A business that uses the calendar year would prepare its balance sheet in