

Cash flow management: What are the key inflow and outflow strategies?

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Personal cash flow management is an underrated concept in India. However, it has a bunch of benefits that most people may not be aware of as yet. Cash flow management establishes a much needed balance between one's cash inflow and cash outflow. Now, cash inflow and outflow are two major but distinct phases in one's financial journey. The former is known as the accumulation phase while the latter is called as the withdrawal phase.

“Managing money isn't just about investments, it's as much about managing expenses if not more. How much money is coming in, when what expenses are due, be it EMIs, insurance premiums, maintenance dues, rent, utilities or plans to buy new appliances, gadgets or furniture. These are to be maintained well so you're never rushing last minute or asking parents or friends for money or worse taming personal loans,” said Shweta Jain, founder at Investography.

Importance of cash flow management

Keeping a personal cashflow statement is very important. However, since it's underrated and not so glamorous, it's often ignored. Maintaining a simple excel will help you not just manage but predict and plan better. Good planning will let you execute your ideas and save for the future as well.

“Keeping a tab on your income and expenses enables investors and families to plan for both their short term and long term goals, and separate out their fixed and discretionary expenses, which significantly aids budgeting,” said Vishal Dhawan, founder at Plan Ahead Wealth advisors.

It will also help you save on those additional interest costs that you will have to pay if you ignore this. Keeping some money liquid in the bank or liquid funds always helps ease you out of such troubles. An effective cash flow management will enable your outflows to remain less than the inflows. Thus, there will always be enough money left to save, invest and eventually built a corpus.

How to strike perfect balance?

While one should ideally aim to strike a calculated balance between inflow and outflow of cash to be able to save enough for future investments, it's quite possible that outflows exceed the inflows for a particular month. This could be due to an unforeseen expenditure, health emergency, etc. The goal of an effective cash flow management is to ensure enough emergency savings but that can take some time.

In the initial stages, the savings may not be sufficient to make a big ticket purchase like a house or car. There comes the option to avail a loan which becomes a part of your monthly outflow in the form of EMIs. One needs to constantly aim to create a decent balance between immediate needs and investment for the future.

Dhawan gave three quick tips to help you find that balance in your personal cash flow for ever growing corpus.

- Keep your loans under control
- Invest monies as soon as you receive salaries, and then spend, rather than spending first and investing what is left over
- Use your bonuses prudently by spending only a small part of it and investing the rest towards goals

Strategy for cash flow management

Highlighting some of the key inflow and outflow strategies to hit the bull's eye vis-a-vis personal cash flow management, Dhawan advised to closely monitor and analyse one's expenses by creating a separate account and reviewing it quarterly.

"Check your actual inflows against expected inflows – dividends, rent, salary, etc. Have a separate account for expenses so that you can keep a tab on what you are spending on, and analyse the same in detail every three months. Automate your savings strategy through the use of tools like SIPs in mutual funds or bank recurring deposits," he concluded.

Monitoring your expenses as well as income is the most critical aspect of achieving the financial goals you've set for yourself. A periodic review of your inflows and outflows reflect your needs much better than your assumptions. Make use of an effective strategy to manage your cash flow today.
