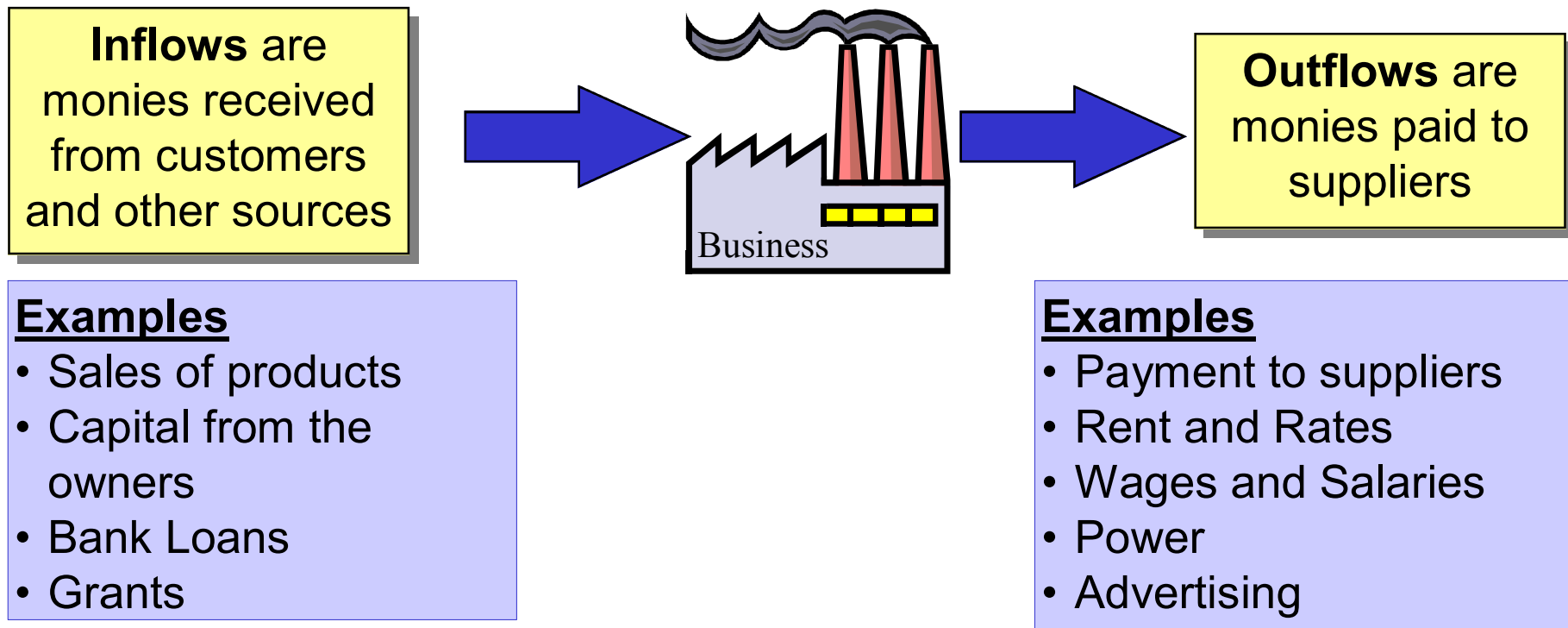




What is Cash Flow ?

- Cash flow refers to cash that flows into and out of a business over a period of time
- Cash is the most liquid asset, so it is **VITAL** that there is enough of it





A Cash Flow Forecast

- A Cash Flow Forecast is a form of budget
- It will show when cash is **expected** to flow into and out of a business
- The cash flow forecast is made up of 3 main sections:
 - **1) Receipts:**
 - This records any money that the business expects to receive.
 - **2) Payments:**
 - This records any money that the business expects to spend.
 - **3) Net in/out Flow:**
 - This is the difference between the receipts and the payments, giving an indication of how much money is left at the end of each month.





What Does One Look Like?

- A cash flow forecast is a table that summarises the money coming in and going out
- Each month has it's own column
- Each column has 3 parts

Date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Receipts												
Total Receipts (A)												
Payments												
Total Payments (B)												
Net In/Out Flow (A-B)												
Bank Brought Forward												
Bank Carried Forward												



A Worked Example

Money In (Revenue)

	Jan	Feb	Mar	Apr	May	Jun
<i>Cash Sales</i>	1200	1300	1600	1550	1700	1800
<i>Credit Sales</i>	0	500	700	650	600	650
Total	1200	1800	2300	2200	2300	2450

← Months

← Monthly Income Figures

← Monthly Total

Money Out (Costs)

<i>Rent</i>	500	500	500	500	500	500
<i>Raw Materials</i>	200	300	700	100	400	300
<i>Wages</i>	800	800	800	800	800	800
<i>Repayments</i>	100	100	100	100	100	100
Total	1600	1700	2100	1500	1800	1700

← Monthly Cost Figures

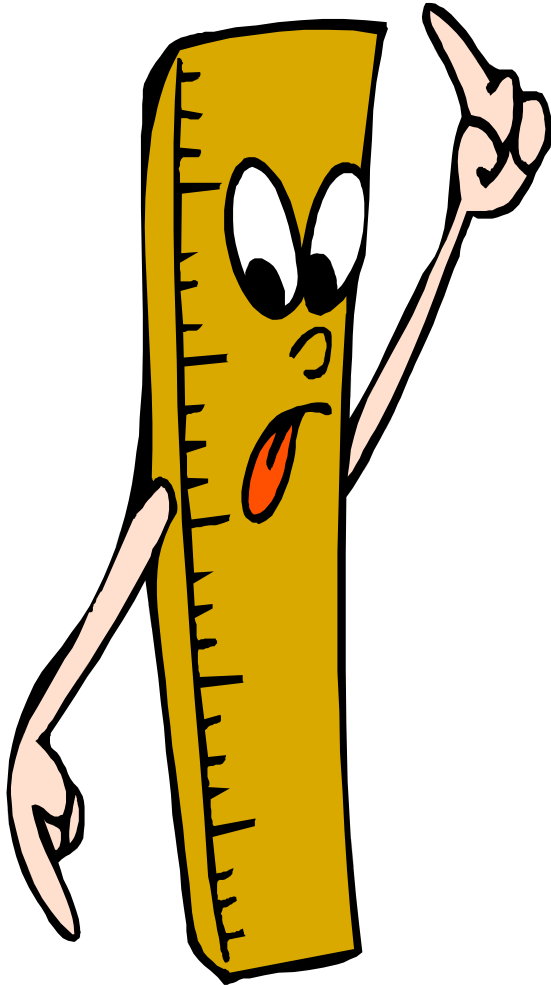
← Monthly Total

<i>Net Flow</i>	(400)	100	200	700	500	750
<i>Bank B/F</i>	0	(400)	(300)	(100)	600	1100
<i>Balance C/F</i>	(400)	(300)	(100)	600	1100	1850

● Note: Negative figures may be shown in brackets



Golden Rules of Cash Flow



- Money is only recorded when cash changes hands
- It tells us **NOTHING** about profit
 - A profitable business can have poor cash flow, and still go bankrupt
- The closing balance of one month is the opening balance of another month
- A negative closing balance **DOES NOT** mean that the firm is bankrupt!



Why Bother With Cash Flow?

- There are a number of reasons why cash flow forecasting is **VITAL**:
 - It helps businesses to identify problems before they happen
 - It helps businesses to plan how to use any excess cash
 - It can help to plan a project with minimal borrowing
 - It helps to support applications for borrowing
- The cash flow forecast can be compared with actual cash flows
 - This will be shown in the **cash flow statement**, which is fact
- Note that large businesses must by law include a cash flow statement in their accounts