



Cash Flow Forecasting

Cash Flow Projections

What is cash flow? Cash flow is an estimate of the timing of when the cash associated with sales will be received and when the cash involved in paying for operating expenses will be sent out. It provides a means for planning the most effective use of your cash. It cannot be overstated that *Cash Flow Is King!* Knowing your cash position at any given time is critical to increasing the survival chances of your business.

A cash flow projection reflects factors such as terms extended to customers – while sales may be made one month, the resulting money may not show up for 30 to 60 days or more. It reflects supplier terms – while they might require you purchase from them COD your sales won't materialize until the product is received, priced, displayed, sold, and the money received for them. And it reflects seasonal variations and other factors that impact when cash is actually going to come in and go out of the business. It is an important management tool.

Cash coming in is called a *cash receipt*. Cash going out is called a *cash disbursement*. If cash receipts are greater than cash disbursements, the business has a positive cash flow for the month. When more money is spent than received, the business has a negative cash flow. Negative cash flows are generally shown in brackets (e.g., \$2,000). Cash flow projections total the value of all cash receipts and all cash disbursements, at the time of receipt or payment, for each month in a 12-month period.

Cash flow is the most volatile part of the entrepreneur's financial juggling act. Any small, growing company runs into cash flow problems. A common cause of small business failure is that owners don't take the time to anticipate when cash will be short even though sales and revenues of small businesses are rarely constant. You can be doing very well sales-wise and still run into cash flow problems.

Cash flow planning requires sound business judgment about expected sales levels, rate of collections, purchasing of inventory, and budgeting of expenses. It calls for interpretation to detect deficit and surplus patterns. While no one can expect to have a crystal ball in terms of perfect projections, you should provide your best estimates based on thorough research and analysis.

To arrive at a sound estimate of your cash flow projections, consider the following:

- What are the sales (or % of sales increase) you expect in the coming year?
- What is the ratio of cash sales to credit sales?
- What payment terms are you providing your customers?
- How promptly must you pay your own suppliers?
- How will you pay your employees (weekly, bi-weekly, monthly)?
- What are the interest and principal payments on any loans you have and how often must they be paid?
- How much inventory do you need to meet projected sales?
- What are your plans for purchasing fixed assets needed for the business?

Sales Forecasting

Start your financial projections by listing all the products/services you plan to sell. Estimate the number of units of each product or service category you will sell each month to each market segment. (This is the tough part and where your market research is critical. You need to know the size of your market; how much, how often, and when customers are likely to purchase from you; and at what price they are likely to purchase at, so that you can make informed estimates.)

Multiply this figure by the sale price per unit to get your total sales in dollars for that category for each month. You will have to do this separately for each different product category you have. Then add them together for your total monthly sales figure. Add all the months together for your total annual sales figure. Doing a break-even analysis may also be helpful – ask for our separate document to assist you with this.

Keep a record of your calculations so that you can use it for substantiating your projections or making alterations should that become necessary. Be realistic about the time it takes for a new business to become known in the market and to build momentum. Your sales forecast should reflect this common factor through slower initial sales (extending to six months or more in some cases).

Expense Forecasting

Do your research on the costs you can expect for the various expense categories you will have and then estimate your monthly disbursements based on what you have learned. Projections should be your best estimate, however, generally you should be conservative in estimating receipts and generous in estimating disbursements. When you are considering whether a venture is viable, it pays to be prudent in how you examine the situation. If you are seeking outside financing, remember to also include your loan principal and interest payments in your monthly disbursements.

Start-Up Costs For New Businesses

Include your projected start-up costs in the start-up column of your first year cash flow. These are the costs that you will incur before your business is actually open and experiencing ongoing operating costs. These include legal fees to set up your business structure; licensing, registration and membership fees; facilities costs (e.g. signage, fixtures, deposits, etc.); equipment purchases (e.g. computers, cash registers, display equipment, furniture, etc.); and supplies. Again be realistic. New business owners often underestimate the amount of capital needed to begin.

Worksheets

Refer to the categories in the worksheet for help in projecting your annual receipts and disbursements in a monthly cash flow forecast. Not all the categories in the worksheet may apply. Use only the categories you require for your particular operation. Include any additional categories that you need

that may be missing as other cash received (line 6), other direct costs (line 13), or other operating expenses (line 31). Include notes itemizing these additional elements and their related costs. You can also add new categories that you feel will be particularly applicable to your business if you wish.

A Strong Management Tool

Once your cash flow forecast is done, don't put it away and forget it. It is useful to compare your actual cash inflows and outflows to your projections at the end of each month. If you didn't meet your sales objective or you have an unexpected payment to make, take the cash flow forecast out and work through it again to see what effect the change had (or will have) on your cash position. Seriously consider that you may have to adjust your spending plans.

A cash flow forecast is an important management tool. You can use it to monitor actual expenses against planned expenses, to anticipate and budget for coming expenses, and to formulate credit and collection policies. It also serves as an early indicator for expenditures that are getting out of hand. Refer to it often and use it to your advantage.

Cash Flow Worksheet Instructions:

To start, complete the *Projected Cash Sales and Accounts Receivable* and *Projected Accounts Payable* worksheets. Transfer these numbers to Lines 1, 2 and 30 as indicated below.

- Line 1: Cash receipts as per *Projected Cash Sales*.
- Line 2: Accounts Receivable as per *Projected Accounts Receivable*.
- Lines 3-4: Loans funds that you receive during the month.
- Line 5: Equity you and/or your partners personally contribute (or plan to contribute) during the month.
- Line 6: Other funds received such as sale of assets, rent received, etc.
- Line 7: Sum of lines 1-6.
- Lines 8-13: Direct operating expenses (variable costs) – This is the actual cash you spend for monthly expenses incurred in the process of selling your service or product.
- Line 14: Sum of lines 8-13.
- Lines 15-28: Fixed operating expenses – This is the actual cash you spend for your monthly operating disbursements. For example, if you write a cheque in January for the full year's insurance, then the amount of the cheque would be put in the January column and nothing would be entered for the rest of the year. (Note: You can drop and add categories of cash receipts and disbursements for the cash flow statement so the format fits your business.)
- Line 29: Loan payments – show the monthly payment for the principal and interest.
- Line 30: Payments on Accounts Payable – as per *Projected Accounts Payable*.
- Line 31: Payments on other operating expenses not already captured.

- Line 32: Purchase of Fixed Assets – This is the cash you spend for fixed assets such as furniture, equipment, etc.
- Line 33: Leasehold Improvements – Payments made to update or renovate your leasehold space.
- Line 34: Contingency Allotment – Include an allotment for contingency planning calculated as a percentage of your monthly expenses.
- Line 35: Sum of line 14 plus lines 15-34.
- Line 36: Line 7 minus line 35.
- Line 37: Cash Balance at Month Start – You need to input the initial cash on hand in the business at the point you start your cash flow. For a Start-up this would generally be zero. Subsequent month amounts for this category will be the same as the previous month's closing balance.
- Line 38: Cash balance at month end is the amount of money you started out with that month plus (or minus) the amount of net cash flow at month's end. That month's closing cash balance then becomes next month's opening cash balance.

Please note that separate worksheets are provided in the excel file so that you can project your monthly cash flow for three successive years.

For more resources to Start or Grow a Small Business, visit our website at www.womensenterprise.ca or call 1.800.643.7014.