How to use: Learn, cover, write and check

Topic 1.3.3 Cash flow forecasting

Key Vocabulary

Cash – the money a business holds in notes and coins and in its bank accounts

Cashflow – the movement of money in and out of a bank account

Insolvency – when a business lacks the cash to pay its debts

Overdraft – the amount of an agreed overdraft facility that a business uses; when a business has a negative bank balance

Overdraft facility – the maximum amount that a business is allowed to into negative balance on its bank account

Cash inflows (receipts) – money entering the bank account, e.g. from sales

Cash outflows (payments) – money leaving the bank account, e.g. bills for supplies

Net cash flow – inflows minus outflows

Opening balance – the amount of money at the start of the month

Closing balance – the amount of money at the end of the month; Opening balance ADD net cash flow

Core Knowledge

A business will **<u>predict</u>** the amount of money that will enter and leave the business each month.

This allows the business to identify any periods of shortfall, to plan how to deal with this.

Businesses need cash to pay suppliers, employees and all the overheads.

Difficulty can arise if businesses allow customers to pay on credit.

Cash needs to be managed by arranging an overdraft, keeping costs down, keeping inflows up

Improve cash flow by cutting stock levels, increase credit from suppliers, reduce credit to customers

MAY	JUNE	JULY	AUG	SEPT	ост	
OPENING BALANCE 20	20 60	50	15	80	120	 Opening Balance = last month's closing balance
150	150	150	150	150	150	
150	100	150	200	175	50	
300	250	300	350	325	200	
200	200	200	200	200	200	
10	10	10	10	10	10	
50	50	75	75	75	25	
		50				
260	260	335	285	285	235	
40	(10)	(35)	65	40	(35)	N - 4 1 - 0
	(20)	(30)		,0	(30)	 Net cash flow = inflows - outflows
60	50	15	80	120	85	· Closing Balance = Opening + Net Cash flow
	20 150 150 300 200 10 50 260	20 60 150 150 150 100 300 250 200 200 10 10 50 50 260 260 40 (10)	20 60 50 150 150 150 150 100 150 300 250 300 200 200 200 10 10 10 10 50 50 50 75 50 260 260 335 40 (10) (35)	20 60 50 15 150 150 150 150 150 100 150 200 300 250 300 350 200 200 200 200 10 10 10 10 10 50 50 75 75 260 260 335 285 40 (10) (35) 65	20 60 50 15 80 150 150 150 150 150 150 100 150 200 175 300 250 300 350 325 200 200 200 200 200 10 10 10 10 10 10 10 50 50 75 75 75 260 260 335 285 285 40 (10) (35) 65 40	20 60 50 15 80 120 150 150 150 150 150 150 150 150 100 150 200 175 50 50 300 250 300 350 325 200 200 200 200 200 200 200 10 10 10 10 10 10 50 50 75 75 75 25 260 260 335 285 285 235 40 (10) (35) 65 40 (35)

Be aware:

- Do not confuse cash & profit they are very different things
- A cash flow forecast is a prediction, it is not what has actually happened
- An overdraft does not mean the business will fail —. Debt is not always a bad thing!
- Lots of cash in the bank is not always a good thing this could be invested to improve the business rather than just being sat there

Wider Business World

Retailers – they often have seasonal or unsteady cash flow as they need to buy stock before they can sell it

Hotels / restaurants - may have seasonal business, so it will be important to build up a balance to support them through periods of low sales

Synoptic Links

Costs & Revenue – know which items are revenue (inflows) and which are costs (outflows)

Sources of finance – if outflows are greater than inflows, short term finance is needed