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 **predict** 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	OCT
OPENING BALANCE	20	60	50	15	80	120
INCOME / RECEIPTS						
Top Shop	150	150	150	150	150	150
eBay Sales	150	100	150	200	175	50
TOTAL RECEIPTS	**300**	**250**	**300**	**350**	**325**	**200**
EXPENDITURE / PAYMENTS						
Rent	200	200	200	200	200	200
Broadband	10	10	10	10	10	10
Materials	50	50	75	75	75	25
Sewing Machine			50			
TOTAL PAYMENTS	**260**	**260**	**335**	**285**	**285**	**235**
MONTHLY NET CASH FLOW	40	(10)	(35)	65	40	(35)
CLOSING BALANCE	60	50	15	80	120	85

- **Opening Balance** = last month's closing balance
- **Net cash flow** = inflows - outflows
- **Closing Balance** = Opening + Net Cash flow

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