Cash Flow Kit Instructions

The Power of Cash Flow Forecasts

Every business deals with cash flow problems, no matter how big or small the business may be. Being prepared and projecting for when those down periods are coming is vital; knowing the inevitable isn't enough.

This is where cash flow forecasts come in. Follow the steps below to fill out the cash flow kit provided for you. In order for your kit to forecast accurate projections, make sure your accounts are reconciled and the books are balanced. If you need help balancing your books, do not hesitate to contact us using the "Contact Us" screen on our website. We will be delighted to assist in getting your books up to date.

Step One

Go to cell C19 and select a month to start with. Enter your opening bank balance on cell D62, which reflects the amount of cash you have on hand. This number can be found on your balance sheet for the month prior to the one you are starting with. For example, if you are starting your Cash Flow Kit with January, you would need the bank balance on your balance sheet for the month of December. If you have your bank statements handy, you could also use that instead of the balance sheet.

Step Two

Identify the money coming into your business over the next 12 months (most forecasts cover the year ahead). This could be projections of future sales based on past performance or market research. Past performance revenue can be found in past income statements. You would enter these numbers on cells E22 – O22. You might adjust these slightly by increasing or decreasing them by 10%, or a similar percentage, to allow for anticipated growth or tighter market conditions.

Step Three

Record the expenses you'll need to pay each month. This will include your overheads or fixed costs, your variable or operating costs, any one-off purchases and annual payments, plus any money you're likely to draw from the business. These numbers will be inserted in cells D35 – O57. It would be a good idea to look at the past income statements to project your future expense, much like your revenue.

Step Four

Repeat for each month on the Cash Flow Kit for the year and you'll have an appreciation of your business's likely cash position for the year ahead.

If your forecast bank balance at the end of each month is positive, you have sufficient cash flowing into your business to meet your expenses. If your bank balance is negative, you'll need to source additional finance to keep your business running, and look at ways to increase revenue, reduce costs, or both.

The most difficult part of creating a cash flow forecast is working out accurate income and expense figures for the months ahead. Obviously, the more accurate these figures are, the more accurate your forecasts will be (and the business decisions you base on them). For your forecasts to continue to be of use, you need to update them based on your actual business performance each month. Replace your forecast figures with the actual figures for the month and make adjustments to the next few months' forecast figures if it appears, based on reality, that your projections were either overly optimistic or pessimistic.

Putting Your Forecasts to Use

Apart from giving you a fairly good indication of your likely cash position at any point in time in the year ahead and alerting you of potential cash flow problems (which enables you to act in advance, rather than react), your cash flow forecasts can be used to model your future plans. Let's say you plan to open a remote office. You can put the additional expenses into your forecasts to see if you can afford the upfront expenses, and then add in the additional revenue you expect to receive to see the overall effect on your business.

You can run three versions of this forecast: a worst-case, best-case, and middle-of-the-road scenario to see how this will affect your business finances. These forecasts will help you decide whether to open the remote office or not. If you're uncertain you'll achieve your best-case sales and your middle-of-the-road figures don't look that promising, you might decide to wait a year before you open the remote office. Alternatively, you might discover it's better to use any surplus cash to pay off interest-bearing loans. Once you have your forecasts set up, use them to model “what if” questions about your business to help you make the best decisions for your business.

For any comments or concerns regarding this cash flow kit, feel free to contact us on our website for a free 30-minute consultation.