CASHFLOW FORECAST

Purpose

The purpose of this tool is to provide guidelines for business owners to manage their current cash position, and to highlight the importance of preparing a cash flow forecast.

If a business wants to grow, it needs cash to fund expansion and to service debt. A review of the balance sheet can show the current cash position. However this does not show how much cash you will have in the future or how you can build a sufficient cash reserve. To do this business owners need to prepare a cash flow forecast.

Process

1) Getting information

The business accounting system (MYOB, Xero and QBO Intuit etc.) and balance at bank account will be the most commonly used information source to assess your cash position.

2) Preparing a cash flow forecast

1. Review budgeted net profit for the next 12 months and remove non-cash items such as:
   - Depreciation
   - Amortisation
   - Accrual & Prepayment Adjustments

2. Excluding the non-cash items from step 1, prepare an adjusted forecast profit and loss for the next 12 months on a monthly basis. This should be broken down as follows:

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Sales												
COGS												
Gross Profit												
Expenses (Excl. non-cash)												
Operating Profit												
Other income/expenses												
Net Profit												
Tax												
Net Profit after Tax												

3. Determine pattern of collections for accounts receivable.
   Use historic information to determine what percentage of sales is made on credit terms and then determine what the patterns of collection have been. For example:

   - 30% @ 30 Days
   - 50% @ 60 Days
   - 15% @ 90 Days
   - 4% @ 120 Days
   - 1% uncollectable

4. Use the sales figures from the forecast profit and loss and the pattern of collections to calculate cash collections from debtors for each month.

5. Prepare the same analysis as in step 3 for accounts payable to determine the patterns of payment on credit terms.

6. Use the purchases and non-cash expenses from the forecast profit and loss to calculate creditor payments for each month.

7. Review capital expenditure for the next 12 months taking into account timing of payments and funding requirements.

8. Review debt and finance repayments required. These could include:
   - Loan Repayments
   - Hire Purchase/Lease Payments
   - Owners Drawings
   - Credit Card Repayments

9. Using the figures calculated above complete the below table to arrive at the monthly net cash flow position. For example:

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
CASH INFLOWS												
Debtors Collections												
Cash Sales												
Other Income (Expenses)												
Capital Contributions												
Loan Drawdown												
Sale of Plant & Equipment												
TOTAL CASH INFLOWS												
CASH OUTFLOWS												
Accounts Payable												
Cash Expenses												
Capital Purchases												
Taxes												
Hire Purchase/ Lease												
Loan Repayments												
Credit Card Payments												
Owners Drawings												
TOTAL CASH OUTFLOWS												
NET CASH FLOW												

3) Discussion

The *current cash position* of the business plus the *forecast net cash flow* provides the business owner with the forecast cash position. Business owners can use this tool to review and revise the business operations to obtain the required cash position.

For example if collection of 30 day debtors is increased from 30% to 50% this will have a positive effect on the monthly net cash flow position and free up cash flow in the short term.