Cash Flow Forecasting

A cash flow projection is a forecast of the difference, over periods of time, between cash coming in the business and cash going out of the business. The estimation or projection of cash flow is a powerful management tool. If you were to choose one financial management tool to use on a routine basis, cash flow projection and analysis would be the one. By knowing your cash position now and in the future, you can:

- Make sure you have enough cash to purchase sufficient inventory for seasonal cycles;
- Take advantage of discounts and special purchases;
- Properly plan equipment purchases for replacement or expansion;
- Prepare for adequate future financing needs.

Cash is the lifeblood of your business. Only cash pays the bills – profit does not. Know where your cash is going, from where it is coming, and what the future holds. Cash flow projection is the tool. The form and instructions are below. The ability to predict and plan cash outlays means that you won't be forced to resort to unexpected and costly borrowing (such as credit cards) to meet your cash needs

How to Prepare a Cash Flow Projection

Preparing a cash flow projection is something like preparing your budget and balancing your checkbook at the same time. Unlike the income statement, a cash flow statement deals only with actual cash transactions. Depreciation, a non-cash transaction, does not appear on a cash flow statement. Loan principal and interest payments will both appear on your cash flow statement, as they both require the outlay of cash.

Cash is generated primarily by sales. But in most businesses, not all sales are cash sales. Even if you have a retail business and a large percentage of your sales are cash, it is likely that you offer credit (charge accounts, term payments, lay-a-way, trade credit) to your customers. Thus, you need to have a means of estimating when those credit sales will turn into cold hard cash.

Cash flow projections should be prepared for short-term (weekly, monthly) and longer-term planning purposes.

Purpose of Short-Term Cash Flow Projection (Weekly and Monthly)

- To determine short term cash position.
- To plan the amount of cash not needed in the short-term and, therefore, can be put in short-term investments or used to take early-pay discounts from vendors.
- To estimate cash needed for due obligations and working capital requirements.

Purpose of Intermediate Term Cash Flow Projections (12 months)

- To show how much cash will be needed to run the business in the coming year.

- To determine where the cash will come from.
- To determine seasonal variations in cash flow.
- To estimate annual borrowing requirements and ability to make repayments.
- Supporting information for loan application.

Purpose of Long-Term Cash Flow Projections (3 to 7 years)

- To support strategic planning
- To determine equity needs
- Substantiation and support of long term debt or equity raising efforts

The level of detail needed in your cash flow projection will vary depending on the complexity of your business.

Short-Term Cash Flow Projection Worksheet

Start with your current cash balance, add the cash you expect to receive in the period and then subtract the cash you have to pay out during the same period.

DESCRIPTION	**FROM** ________ **TO** ________	**FROM** ________ **TO** ________
Beginning cash balance	________________	________________
+ Estimated cash sales	________________	________________
+ Estimated collections on credit sales	________________	________________
+ Transfers from savings/investment accounts	________________	________________
+ Other sources ________________	________________	________________
+ Borrowing anticipated	________________	________________
Total cash available during period	________________	________________
- Bills to be paid	________________	________________
- Loan payments (principal and interest)	________________	________________
- Payroll tax or income tax deposits	________________	________________
- Transfers to savings/mmda	________________	________________
– Other payments ________________	________________	________________
Estimated ending cash balance	________________	________________

Instructions for Short-Term Cash Flow Projection Worksheet

FROM _________TO _________ Enter the start date and end date for the period of time that you would like to project the change in cash. Start with the current date so that you have an accurate cash balance. Weekly increments are most frequently used for small businesses. A computer spreadsheet will allow you to have many periods lined up right next to each other. One column's projected ending balance is the next column's beginning cash.

Beginning Cash Balance Start with the current book balance(s) in your accurately reconciled checking and savings accounts. Don't use the last balance on your bank statement as it may be out of date

+ Estimated cash sales; Include only the cash sales that will occur during the time period.

+ Estimated collections on credit sales; Include collections on accounts receivable and credit card sales. Do not include sales that are expected to be purchased on credit during this time, unless they will also be converted to cash during the period.

+ Transfers from other accounts (savings, investment, etc.); This line item may also be a “plug”, meaning you decide how much you should transfer in after you complete your cash flow forecast.

+ Other sources; Other sources might include interest received, refunds, deposits, or other miscellaneous cash receipts. You would also include any capital from shareholders or partners.

+ Borrowing anticipated; Enter the proceeds of any loans that you expect to close during the period, including line of credit borrowings. Similar to “Transfers from …” above, you may need to fill this out after you have completed the worksheet.

Total Cash Available; The sum of your beginning cash balance plus all cash inflows during the period.

- Bills to be paid; Use your accounts payable aging to help estimate bills that will be due during the time period.

- Loan payments; Subtract any loan payments (both principal and interest) that will be due during the time.

- Payroll tax or income tax deposits; Many small businesses fail to make timely payroll tax deposits because they aren't managing their cash flow and they don't have adequate cash available to make the deposit. Owners and officers are personally liable for payroll tax deposits. Talk with your accountant if you need help with this estimate. Making a profit? Put your estimated income taxes here as well, and make them.

- Transfers to savings/investment accounts; Include here any amounts that you plan to transfer into investment accounts. You may want to leave this line blank until you have completed the worksheet and determined whether you will have excess cash.

- Other payments Include any miscellaneous; payments such as security deposits, insurance premiums due or other items not included in “bills to be paid”. You can also include any partners’ draws or dividend payments.

Estimated Ending Cash Balance; This is the estimated ending cash balance – the net of all the cash activity you expect during the period. This should be a "comfortable" balance. If this number is too large or negative, revisit transfers and proceeds from loans.