What is Cash Flow????

Cash flow: the sum of cash payments to a business (inflows) less the sum of cash payments (outflows)

Cash inflows: payments in cash received by a business, such as those from customers)debtors) or from the bank, e.g. receiving a loan

Cash outflows: payments in cash made by a business, such as those to suppliers and workers

What is cash flow forecasting?

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Predicting the future cash inflows
and outflows of a business

Why are forecasts important?

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- They are particularly important for 3 types of business:

1. New firms

2. Fast growing firms

3. Firms with erratic sales

Why these types of business in particular?

Why are forecasts important?

- They are particularly important for 3 types of business:

1. New firms: Based on market research so that they can plan ahead

2. Fast growing firms: Prepare to manage new volumes of cash inflow and outflow, maximise positive cash flow

3. Firms with erratic sales: To help manage with months within that year that cash inflow may be low

What is negative cash flow?

What is negative cash flow?

When cash outflows are greater than cash inflows

How to improve cash flow:

- Reduce stock levels (De-stocking)

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- Reduce credit to customers

- Increase Sales Revenue

What are the elements of a cash flow forecast?

1. Receipts: The predicted sales revenue for each month (also known as cash inflows)

2. Payments: Money the business expects to spend during that time (also known as cash outflows)

3. Net Cash Flow: The difference between the total payments and the receipts = receipts – payments

What are the elements of a cash flow forecast?

4. Opening Balance: The money that a firm has carried over from a previous month

5. Closing Balance: Total of the net cash flow figure and the opening balance = opening balance + net cash flow

Mr Flake's Cash Flow Forecast

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Se
Receipts									
Sales	1500								
Private Hires	0								
Total Receipts	1500								
Payments									
Licence	1599								
Insurance	120								
Stock	300								
Fuel	150								
Salary	1200								
Total Payments	3369								
Net cash flow	-1869								
Opening Balance	0								
Closing Balance	-1869								

Mr Flake's Cash Flow Forecast

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec
Receipts												
Sales	£1,500	£2,000	£2,500	£3,000	£3,500	£4,000	£4,500	£5,000	£4,250	£3,500	£2,750	£2,000
Private Hires	0	0	0	0	0	£500	£750	£600	0	0	0	0
Total Receipts	**£1,500**	**£2,000**	**£2,500**	**£3,000**	**£3,500**	**£4,500**	**£5,250**	**£5,600**	**£4,250**	**£3,500**	**£2,750**	**£2,000**
Payments												
Licence	£1,599	0	0	0	0	0	0	0	0	0	0	0
Insurance	£120	£120	£120	£120	£120	£120	£120	£120	£120	£120	£120	£120
Stock	£300	£400	£500	£600	£700	£800	£900	£1,000	£850	£700	£550	£400
Fuel	£150	£200	£250	£300	£350	£400	£450	£500	£425	£350	£275	£200
Salary	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200
Total Payments	**£3,369**	**£1,920**	**£2,070**	**£2,220**	**£2,370**	**£2,520**	**£2,670**	**£2,820**	**£2,595**	**£2,370**	**£2,145**	**£1,920**
Net cash flow	-£1,869	£80	£430	£780	£1,130	£1,980	£2,580	£2,780	£1,655	£1,130	£605	£80
Opening Balance	0	-£1,869	-£1,789	-£1,359	-£579	£551	£2,531	£5,111	£7,891	£9,546	£10,676	£11,281
Closing Balance	**-£1,869**	**-£1,789**	**-£1,359**	**-£579**	**£551**	**£2,531**	**£5,111**	**£7,891**	**£9,546**	**£10,676**	**£11,281**	**£11,361**