

Chapter 29 Cash Flow Forecasts

Hint:
Cash is liquid



Hint:
Poorly managed cash flow
often leads to a liquidity
crisis

Cash is ...
the most **liquid** of all business assets.

Poor Cash Flow
Leads to Borrowing

Cash vs Profit
Do not confuse cash and profit

Any Question?

CASH FLOW
Homework Activity Sheet

cash flow

in context

Chapter 29

Cash Flow Forecasts

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SdP



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This chapter will explain:

- the importance of cash flow forecasts to business operations;
- the difference between cash inflow and cash outflow;
- how a cash flow forecast is constructed and how it can be amended.

Cash is . . .

the most **liquid** of all business assets.

notes, coins and bank deposits that provide firms with the spending power to pay their bills and expenses

CASH FLOW FORECASTS

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Controlling Cash Flow

Many start-up businesses fail because of lack of CASH not profit.

Businesses must manage their cash flow to ensure that they have cash available when it is required.

This involves estimating inflows & outflows of cash

CASH FLOW key terms

Cash flow refers to the flows of cash both into and out of a business.

Cash inflows are payments into a firm from customers or other sources.

Cash outflows refer to payments made by a business.

Net cash flow = cash inflow - cash outflow

ABC Limited Income Statement	Year ended 31.12.2019	Year ended 31.12.2020
Revenue	100,000	110,000
Cost of sales	(40,000)	(45,000)
Gross profit	60,000	65,000
Operating expenses	(20,000)	(22,000)
Operating profit	40,000	43,000
Finance income	5,000	6,000
Finance costs	(2,000)	(3,000)
Profit before tax	43,000	46,000
Income tax	(8,000)	(9,000)
Profit after tax	35,000	37,000
Dividends paid	(10,000)	(12,000)
Retained profit	25,000	25,000

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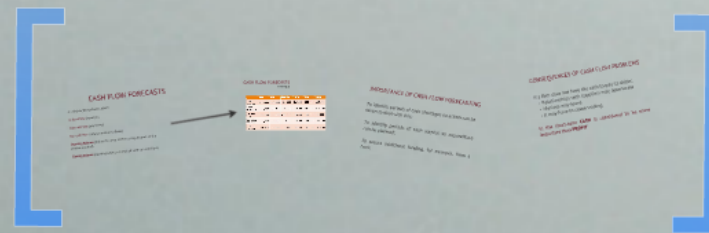
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Cash inflows	Cash outflows
Cash sales	Payments to suppliers
Receipts from trade debtors	Wages and salaries
Sale of fixed assets	Payments for fixed assets
Interest on bank balances	Tax on profits
Grants	Interest on loans & overdrafts
Loans from bank	Dividends paid to shareholders
Share capital invested	Repayment of loans

Figures in £ 000's	April 2015	May 2015
CASH INFLOWS		
Wedding party fees	60,000	Same
Celebrity appearances	15,000	- 20%
Share capital	20,000	-10%
TOTAL CASH INFLOWS		
CASH OUTFLOWS		
Launch party	8,000	+14%
Marquee hire	12,000	Same
Party supplies	6,000	Same
Advertising at polo	4,000	+15%
Wardrobe and make-up	4,000	-6%
Holiday in Dubai	7,000	+7%
TOTAL CASH OUTFLOWS		
Net cash flow		

Cash Flow Forecasts



CASH FLOW FORECASTS

A cash flow forecast will include:

Cash inflows (receipts)

Cash outflows (payments)

Net cash flow (inflows minus outflows)

Opening balance (this is the same as the closing balance of the previous period)

Closing balance (opening balance combined with net cash flow)

CASH FLOW FORECASTS

example

	Jan	Feb	March	April	May	June
Cash inflows	£17,000	£18,500	£19,000	£19,800	£21,000	£18,900
Cash outflows	£14,300	£15,100	£24,900	£16,300	£17,800	£24,800
Net cash flow	£2,700	£3,400	(£5,900)	£3,500	£3,200	(£5,900)
Opening balance	£2,200	£4,900	£8,300	£2,400	£5,900	£9,100
Closing balance	£4,900	£8,300	£2,400	£5,900	£9,100	£3,200

IMPORTANCE OF CASH FLOW FORECASTING

To identify periods of cash shortages so action can be taken to deal with this;

To identify periods of cash surplus so expenditure can be planned;

To secure additional funding, for example, from a bank.

CONSEQUENCES OF CASH FLOW PROBLEMS

If a firm does not have the cash to pay its debts:

- Relationships with suppliers may deteriorate
- Workers may leave
- It may have to cease trading

In the short-term **CASH** is considered to be more important than **PROFIT**

CASH FLOW FORECASTS

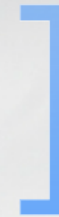
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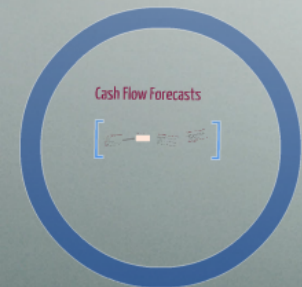
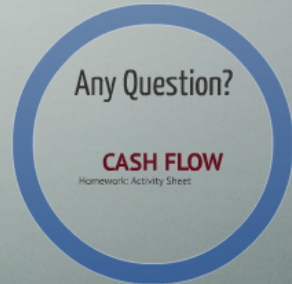
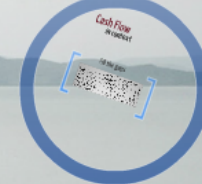
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Poor Cash Flow
Leads to Borrowing



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cash flow

in context

Poor Cash Flow Leads to Borrowing

While sometimes necessary, loans and lines of credit add further costs to conducting business and reduce cash flow in the process.

It is important to understand your businesses need for cash and avoid unnecessary cost of borrowing

Cash vs Profit

Do not confuse cash and profit

An item may be bought on credit and paid for at a later date.

A bank loan may be taken out causing a positive cash flow, but no sales have been made.

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A bank loan may be taken out causing a positive cash flow, but no sales have been made.

Cash Flow

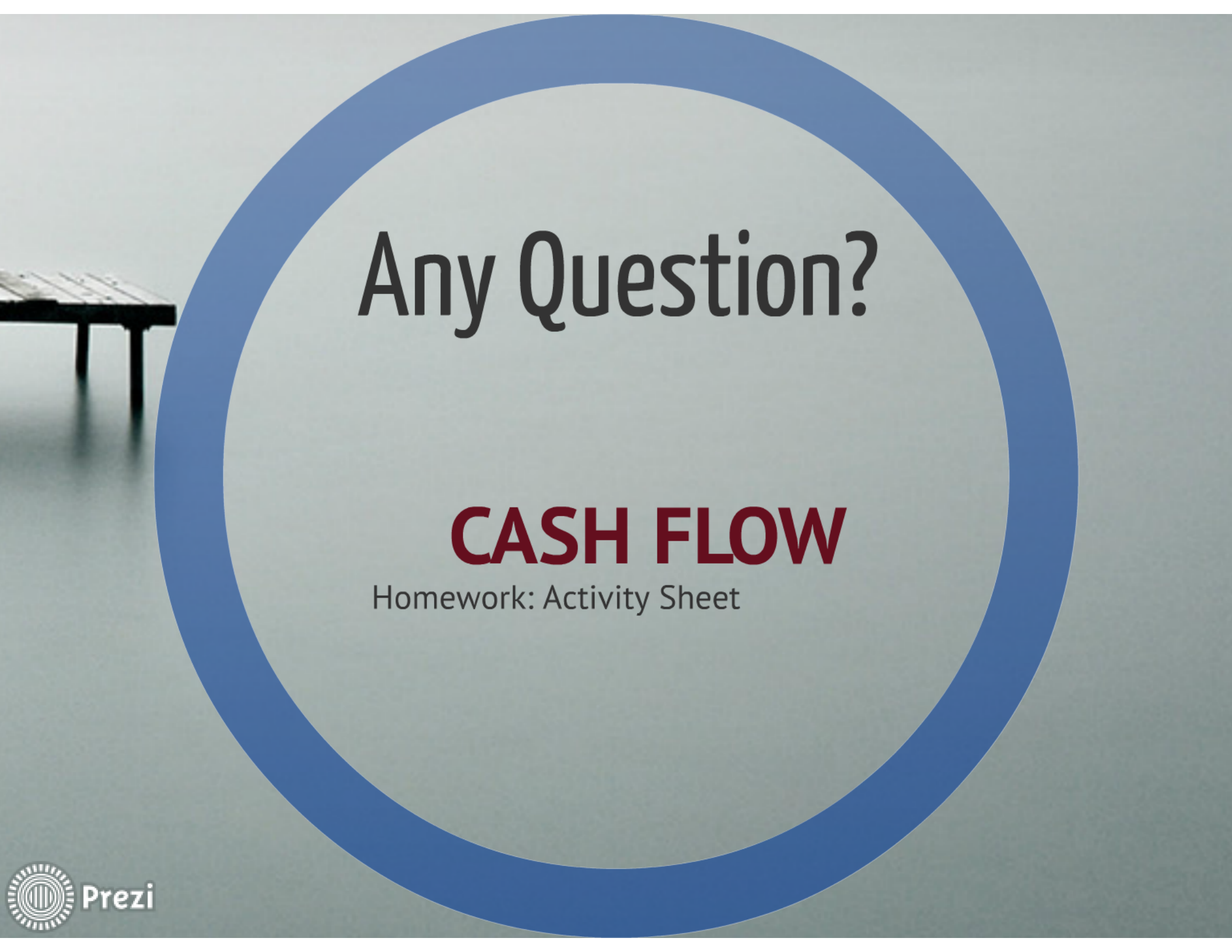
in context

Fill the gaps

	January	February	March
Cash inflow	£10,000	£11,000	?
Cash outflow	£9,000	£11,500	£10,800
Net cash flow	£1,000	?	£400
Opening balance	?	£1,600	£1,100
Closing balance	£1,600	£1,100	£1,500

Fill the gaps

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Net cash flow	£1,000	?	£400
Opening balance	?	£1,600	£1,100
Closing balance	£1,600	£1,100	£1,500



Any Question?

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Homework: Activity Sheet

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Cash is ...
the most **liquid** of all business assets.
Money can be put to use. Assets that provide their value by enabling you to pay for all the expenses

Poor Cash Flow
Leads to Borrowing
With poor cash flow, you may find yourself
paying for your business expenses with
credit. It is important to understand your business needs for cash and
avoid unnecessary need of borrowing.

Cash vs Profit
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As time may be brought on
credit and paid for at a later
date.

A bank loan may be making
out cashing a profit on cash.
Borrow, but the bank have
taken money.

Cash Flow Forecast

Cash Flow Forecasts

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