

GUIDELINES

GENERAL

Definition: A cash flow projection is a forecast of cash funds a business anticipates receiving and paying out throughout the course of a given time span, and the anticipated cash position at specific times during the period being projected. [For the purpose of this projection, cash funds are defined as cash, cheques, or money order, paid out or received.]

Objective: The purpose of preparing a cash flow projection is to determine shortages or excesses in cash from that necessary to operate the business. If cash shortages are revealed in the project, financial plans **must** be altered to provide more cash until a proper cash flow balance is obtained. For example, more owner cash, loans, increased selling prices of products, or less credit sales to customers will provide more cash to the business. Ways to reduce the amount of cash paid out includes having less inventory, reducing purchases of equipment or other fixed assets, or eliminating some operating expenses. If excesses of cash are revealed, it might indicate excessive borrowing or idle money that could be used more

The Spreadsheet: The cash flow projection worksheet in this file provides a systematic method of recording estimates of cash receipts and expenditures, which can be compared with actual receipts and expenditures as they become known. The entries listed in the spreadsheet will not necessarily apply to every business, and some entries may not be included which would be pertinent to specific businesses. It is suggested, therefore, that you adapt the spreadsheet to your business, with appropriate changes in the entries as required. Before the cash flow projection can be completed and a pricing structure

What are the direct costs of the product or services per unit?

What are the monthly or yearly costs of the operation?

What is the sales price per unit of the product or service? Determine that the pricing structure provides this business with reasonable breakeven goals [including a reasonable net profit] when conservative sales goals are met.

What are the available sources of cash, other than income from sales: for example, loans, equity capital, rent, or other

Procedure: Most of the entries for the cash flow spreadsheet are self-explanatory; however, the following suggestions are (A) Suggest whole Pounds Sterling be used rather than showing pence.

(B) If this is a new business, or an existing business undergoing significant changes or alterations, the cash flow part of the column marked "Pre-start-up Position" should be completed. [Fill in appropriate blanks only.] Costs involved here are, for example, rent, telephone, and utilities deposits before the business is actually open. Other items might be equipment

(C) Next fill in the pre-start-up position of the essential operating data [non-cash flow information], where applicable.

(D) Complete the spreadsheet using the suggestions for each entry, provided in the partial spreadsheet on the next

CHECKING

In order to insure that the figures are properly calculated and balanced, they must be checked. Several methods may be used, but the following four checks are suggested as a minimum:

CHECK #1: Item #1 [Beginning Cash on Hand – 1st Month] plus Item #3 [total Cash Receipts – Total Column] minus Item #6 [Total Cash Paid Out – Total Column] should be equal to Item # 7 [Cash Position at End of 12th Month]. In other words, Item #1 + Item #3 - Item #6 = Item #7.

CHECK #2: Item A [Sales Volume – Total Column] plus Item B [Accounts Receivable – Pre-start-up Position] minus Item 2(a) [Cash Sales – Total Column] minus Item 2(b) [Accounts Receivable Collection – Total Column] minus Item C [Bad Debt – Total Column] should be equal to Item B [Accounts Receivable at End of 12th Month]. In other words, Item A + Item B [pre-

CHECK #3: The horizontal total of Item #6 [Total Cash Paid Out] is equal to the vertical total of all items under Item #5 [5(a) through 5(w)] in the total column at the right of the form.

CHECK #4: The horizontal total of Item #3 [Total Cash Receipts] is equal to the vertical total of all items under #2 [2(a) through 2(c)] in the total column at the right of the form.