GUIDELINES

GENERAL

Definition: A cashflow 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 orders** paid out or received.

Objective: The purpose of preparing a cash flow projection is to determine shortages or excesses of the cash 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 cashflow 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 include 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 effectively. The

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

What are the direct costs of your product or services per unit?
What are the monthly or yearly costs of your operation?
What is the sales price per unit of your product or service?
What sources of cash are available to you, other than income from sales? Such sources may include loans, equity capital and rent.

Procedure: Most of the entries for the cashflow 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 cashflow part of the column marked "pre-start-up" 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 purchases,
(C) Next fill in the pre-start-up position of the essential operating data (non-cashflow 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 ensure 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 the premises – 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 +

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-start-up) -

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) to
CHECK 4: The horizontal total of item 3 [total cash receipts] is equal to the vertical total of all items under item 2 [2(a) to

ANALYSE the relationship between the cashflow and the projected profit during the period in question. The estimated profit is the difference between the estimated change in assets and the estimated change in liabilities before such things as owner withdrawal, appreciation of assets, change in investments etc. The change may be positive or negative. This can be

The **change in assets** before owner withdrawal, appreciation of assets, change in investments etc can be computed by
(1) Item 7 [cash position – end of last month] minus item 1 [cash on the premises at the beginning of the first month].
(2) Item 5 (t) [capital purchases – total column] minus item F [depreciation – total column].