

Chapter 8: Cash Flow Planning

The cash flow of a business is the cash inflows and outflows over a period of time.

Cash inflows are the sums of money received by a business during a period of time.

Cash outflows are the sums of money paid out by a business during a period of time.

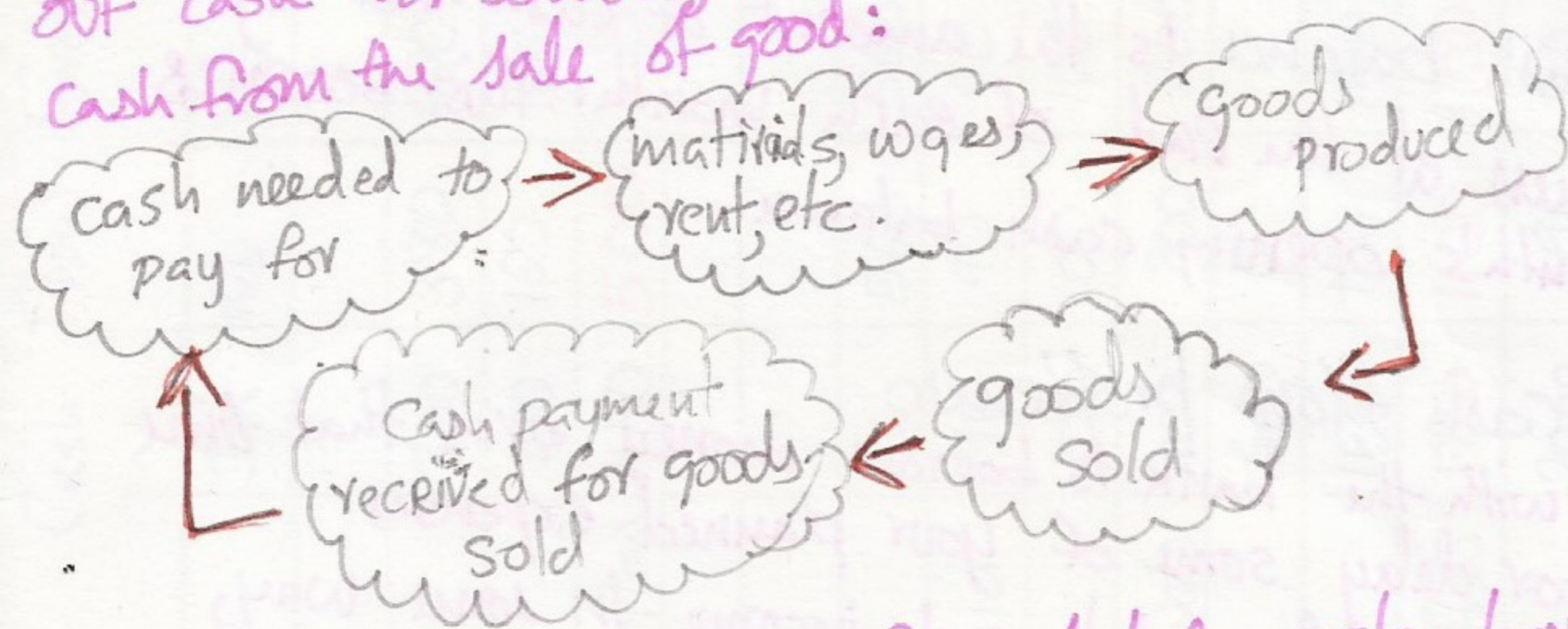
Common ways of Cash inflow

- Sale of goods for cash
- payment of debtors
- loan
- sale of assets
- from investors

Common ways of Cash outflow

- purchasing goods or material for cash
- wages, salaries, other expenses
- purchasing fixed assets
- repaying loans
- paying creditors.

A cash flow cycle shows the stages between paying out cash for labour, materials, etc. and receiving cash from the sale of goods:



Profit is the ~~surp~~ surplus after total costs have been subtracted from sales revenue.

Cash flow is not the same as Profit.

Insolvency - Businesses running out of cash

Overt trading - Paying for higher stock levels

These lead to cash flow problems

A cash flow forecast is an estimate of future cash inflows and outflows of a business, usually on a month by month basis. This will then show the expected cash balance at the end of each month.

What it tells the manager?

- how much cash is available
- how much to borrow from bank to avoid insolvency.
- whether the business is holding too much cash.

Uses of cash flow forecasts

- starting up a business
- running an existing business
- keeping the bank manager informed
- managing cash flow.

Opening Cash Balance is the amount of cash held by the business at the start of the month

Net cash flow is the difference, each month, between inflows and outflows.

Closing cash balance is the amount of cash held by the business at the end of each month. This becomes next month's opening cash balance.

Solving cash flow problems

- Arrange with the bank to borrow money over that time
- Reduce or delay some of your planned expenses
- Increase your forecasted cash income in some ways
eg: part-time job
- Delay paying for some of your expenses until cash is available.

Cash Flow Forecast - Glacier's Glen.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash inflow												
Sales Revenue	300	380	420	610	1600	1250	1100	950	800	750	650	500
Debtors	150	120	195	250	850	900	800	400	350	210	195	180
Total inflow	450	500	615	860	2450	2150	1900	1350	1150	960	845	680
Cash outflow												
Purchases	560	560	560	560	560	560	560	560	560	560	560	560
Wages & Salaries	90	90	90	90	90	90	90	90	90	90	90	90
Bank loan	100	100	100	100	100	100	100	100	100	100	100	100
Electricity & Water	200	200	200	200	200	200	200	200	200	200	200	200
Fixtures	660	0	0	0	0	0	0	150	0	0	0	0
Overheads	150	150	150	150	150	150	150	150	150	150	150	150
Total Outflow	1760	1100	1100	1100	1100	1100	1100	1250	1100	1100	1100	1100
Opening Balance	2000	690	90	(395)	(635)	715	1765	2565	2815	2865	2725	2470
Net Cash flow	(1310)	(600)	(485)	(240)	1350	1050	800	250	50	(140)	(255)	(420)
Closing Balance	690	90	(395)	(635)	715	1765	2565	2815	2865	2725	2470	2050

→ Net Cash flow = Inflow - Outflow

→ Closing balance = Net cash flow + opening balance.

→ Opening balance is closing balance of previous month