

Planning

Cash-flow forecast

	(€000s)											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Receipts												
Cash sales	451	360	399	410	490	464	452	340	450	390	480	680
Capital introduced									300			
Total receipts	451	360	399	410	490	464	452	340	750	390	480	680
Payments												
Goods for resale	150	180	150	180	150	180	150	180	150	180	220	250
Leasing charges	20	20	20	20	20	20	20	20	20	20	20	20
Motor expenses	40	40	40	40	40	40	40	40	40	40	40	40
Wages	100	100	100	100	100	100	100	105	105	105	125	125
VAT			126			189	187		187			198
Loan repayments	35	35	35	35	35	35	35	35	35	35	35	35
Telephone		11			12			12			14	
Miscellaneous	20	20	20	20	20	20	20	20	20	20	20	20
Total payments	365	406	491	395	377	584	552	412	557	400	474	688
Net cash flow	86	(46)	(92)	15	113	(120)	87	(72)	193	(10)	6	(8)
Opening balance	11	97	51	(41)	(26)	87	(33)	54	(18)	175	165	171
Closing balance	97	51	(41)	(26)	87	(33)	54	(18)	175	165	171	163

Specificities of cash-flow forecasts

- Units (000s)
- Not all categories will be shown in the table!
- 2 blocks in table:
 1. Cash inflow (*receipts*)
 2. Cash outflow (*payments*)
- Numbers between brackets: negative number

Question 2 (p.165)

Frank Fullerton owns a bookshop near the University of Hull. He sells educational books to students, but also has a large stock of fiction books. Unfortunately the business has been struggling in recent months. He thinks that students are sharing books and therefore his sales are suffering. Table 2 shows a cash-flow forecast for the bookshop at the beginning of 2014. It is incomplete.

Question 2 (p.165)

	Jan	Feb	Mar
Cash inflows			
Book sales	3,000	3,500	3,100
Fresh capital			2,000
Interest		150	
Total cash inflows	3,000	3,650	5,100
Cash outflows			
Stock	1,700	1,790	1,900
Casual labour	500	500	500
Rent	1,000	1,000	1,000
Other expenses	230	240	230
Total cash outflows	?	?	?
Net cash flow	?	?	?
Opening balance	230	?	?
Closing balance	?	?	?

Table 3 Cash-flow forecast for Patel Motors

	June	July	August	September	October	November
Cash inflows						
Petrol and repairs	6,700	6,600	7,200	6,800	7,100	7,600
Shop and other sales	2,250	2,750	2,300	3,300	3,850	4,350
Total cash inflows	8,950	9,350	9,500	10,100	10,950	11,950
Cash outflows						
Casual labour	800	800	800	800	800	800
Petrol and parts	4,250	4,300	4,700	4,500	4,500	5,000
Stock and other expenses	2,450	2,500	4,500	5,000	5,600	5,600
Total cash outflows	7,500	7,600	10,000	10,300	10,900	11,400
Net cash flow	1,450	1,750	(500)	(200)	50	550
Opening balance	450	1,900	3,650	3,150	2,950	3,000
Closing balance	1,900	3,650	3,150	2,950	3,000	3,550

Table 4 Amended cash-flow forecast for Patel Motors

	June	July	August	September	October	November
Cash inflows						
Petrol and repairs	6,700	6,600	7,200	6,800	7,100	7,600
Shop and other sales	2,250	2,750	2,300	3,300	3,850	4,350
Debt repayment				400		
Total cash inflows	8,950	9,350	9,500	10,500	10,950	11,950
Cash outflows						
Casual labour	800	800	1,100	1,100	1,100	1,100
Petrol and parts	4,250	4,300	4,700	4,500	4,500	5,000
Stock and other expenses	2,450	2,500	4,500	5,000	5,600	5,600
Computer equipment			1,200			
Total cash outflows	7500	7600	11500	10600	11200	11700
Net cash flow	1,450	1,750	(2,000)	(100)	(250)	250
Opening balance	450	1,900	3,650	1,650	1,550	1,300
Closing balance	1,900	3,650	1,650	1,550	1,300	1,550

Advantages of cash-flow forecasts

- Identify exact **timing** of cash shortages
- Support for **applications of finance** (important component of business plan)
- Helps the **planning process**
- Understand divergences between
 - **predicted** cash-flow and
 - **actual** cash-flow

Disadvantages of cash-flow forecast

- Values in cash-flow forecasts are often using **estimates**
- **External variables** may affect cash-flow forecasts (e.g., interest rates, taxation, legislation, exchange rate, consumer taste, ...)
- Preparing cash-flow forecasts can be very **time-consuming** (resources could be used in production or for satisfying customer needs)
- Cash-flow forecast is a **one-dimensional** tool (focuses on single factor: cash)

Surviving cash-flow crisis (Burke, FT 2008)

- Understand the situation fully.
 - Talk to your customer to see if you can **negotiate** or influence the decision to **stop or delay payment**,
 - check what you are entitled to contractually and consider the reasons for the lost or delayed business.
- Produce a **daily cash flow forecast** and calculate how many days you can keep the business running with the current level of funding.
- Talk to your bank honestly and early on, and explore **additional funding options** and support available.

Surviving cash-flow crisis (Burke, FT 2008)

- Identify your **cut-off point** and stick to it – avoid the gambler syndrome.
- Meet with a reputable **insolvency practitioner** early on to get advice and identify options. This does not mean you are committing yourself to anything and there is no stigma attached.
- Get cash in more quickly. **Chase your debtors** and consider offering **incentives for early payment**.
- Delay or **stop money going out** and **cut unnecessary costs**.
- Consider rescue options, including a **business angel**.

Surviving cash-flow crisis (Warner, FT 2008)

- Employ someone who can forecast cash-flow on an ongoing basis.
- Forecast worst-case scenarios and have contingency funding in place.
- Be firm and clear about customer payment terms.
- Get invoices out to customers quickly.
- Minimise reasons for invoices to be queried.
- Monitor and minimise stock levels.
- Agree maximum possible credit from suppliers and keep to terms.
- Make a profit. It is the main generator of cash.

