

HOW TO COMPLETE A CASH FLOW FORECAST

by Helen Munshi

Understanding the finances of a business is key to its success. A cash flow is a month-by-month summary of the money that goes into and comes out of a business. It shows whether the business is making a profit and whether there is enough money to cover the costs each month.

There are two types of cash flow:

- a cash flow forecast, which is based on predictions
- an actual cash flow, which shows the actual income and costs every month

Below is an example of a cash flow forecast for the first six months of a business.

5

This column shows the **total** for each type of income and expense for the cash flow period. This is useful to see where most of the money is spent in the business and helps show whether you need to make savings in a certain area.



1

Complete the **names of the months**. This example includes an initial month before the business starts selling products or services. Most businesses will spend and receive money to get ready for trading. Number the months – month 1 is the month when you start selling.

2

The **sources of income** section shows all the money coming into the business. This includes sales revenue (ie how much the business is earning from selling goods or services) and any loans. You can work out your monthly sales revenue by multiplying the price of your product/service by the number you expect to sell each month. Your market research should help you predict this (see pages 7 and 19).

3

In this row add up the **total monthly income** coming into the business for each month.

4

This section shows all the **expenses** the business will have. List each cost on a different line. Include the amount it costs to make the product or provide the service. List any fixed costs such as rent, electricity and taxes. You should also include how much you need to take from the business to live: your 'personal survival budget'. Set aside a contingency amount every month. This is money that can be used to pay for unexpected costs.

6

This section shows the **balances** for the business. This is how much money the business has at the start and the end of the month.

Balance this month – To calculate the balance, take the total money earned in the month and subtract the total money spent in the month ($balance\ this\ month = total\ monthly\ income - total\ monthly\ costs$). If this number is positive then the business has earned more than it has spent. If it is negative then the business has spent more than it has earned.

Opening balance – This is always 0 in the initial month before trading begins, as we assume there is no money in the business when it starts. For the other months the opening balance is the same as the closing balance of the previous month. It shows how much cash the business has at the start of the month.

Closing balance – This shows how much cash the business has at the end of the month. It is calculated by adding the month's opening balance to the month's balance ($closing\ balance = balance\ this\ month + opening\ balance$). If this figure is negative then you have run out of money and need to get more finance or make more sales to be able to cover all your costs.

CASH FLOW FORECAST JUNE TO NOVEMBER 2017

Month number		1	2	3	4	5	6	Total for this period
Name of month	Before starting	June	July	August	September	October	November	
SOURCES OF INCOME								
Sales revenue	0	300	500	550	600	600	500	3050
Loan	800	0	0	0	0	0	0	800
Total monthly income	800	300	500	550	600	600	500	3850
EXPENSES								
Raw materials	0	60	100	110	120	120	100	610
Equipment	200	0	0	0	0	100	0	300
Market stall rent	0	80	80	80	80	80	80	480
Electricity	0	10	10	10	10	10	10	60
Marketing	20	0	0	0	20	0	0	40
Loan repayments	0	0	0	0	0	0	20	20
Contingency	0	10	10	10	10	10	10	60
Personal survival budget	0	200	200	200	200	200	200	1200
Total monthly costs	220	360	400	410	440	520	420	2770
BALANCES								
Balance this month	580	-60	100	140	160	80	80	1080
Opening balance	0	580	520	620	760	920	1000	0
Closing balance	580	520	620	760	920	1000	1080	1080