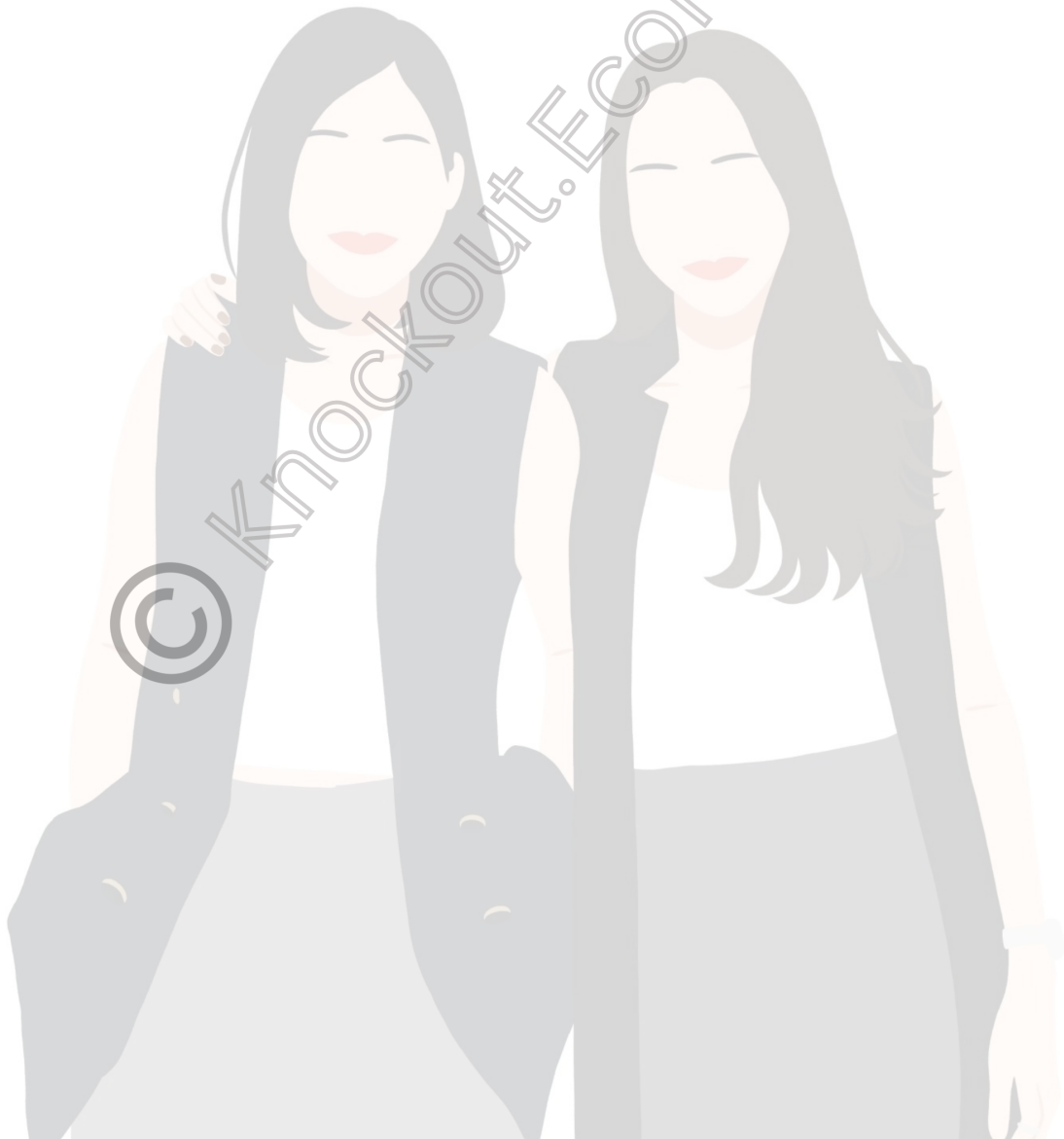


Chapter 32 Cashflow

Key terms

1. Cash flow forecast: the prediction of all expected receipts and expense of a business over a future time period which shows the expected cash balance at the end of each month.
2. Cash inflows: the flow of money into a business.
3. Cash outflow: the flow of money out of a business.
4. Net cash flow: total cash inflows - total cash outflows
5. Solvency: the degree to which a business is able to meet its debts when they fall due.



Cash flow forecast ; the prediction of all expected receipts and expense of a business over a future time period which shows the expected cash balance at the end of each month.

1. Interpreting cash flow forecasts

1) **cash inflows** ; the flow of money into a business.

2) **cash outflow** ; the flow of money out of a business.

3) **Net cash flow** ; total cash inflows - total cash outflows

↳ **Net cash flow is positive; meaning cash inflow > cash outflow**

4) **opening balance** ; the amount of cash that the business has at the beginning of each month. opening balance = closing balance from previous month.

5) **closing balance** ; the amount of cash that the business expects to have at the end of each month

↳ **Closing balance = Net cash flow + Opening balance**

	(£000s)											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash inflows												
Cash sales	451	360	399	410	490	464	452	340	450	390	480	680
Capital introduced									300			
Total cash inflows	451	360	399	410	490	464	452	340	750	390	480	680
Cash outflows												
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	
Other	20	20	20	20	20	20	20	20	20	20	20	20
Total cash outflows	365	406	491	395	377	584	552	412	557	400	474	688
Net cash flow	86	(46)	(92)	15	113	(120)	100	(72)	193	(10)	6	(8)
Opening balance	11	97	51	(41)	(26)	87	(33)	63	(9)	184	174	180
Closing balance	97	51	(41)	(26)	87	(33)	63	(9)	184	174	180	172

▲ Table 1 Cash flow forecast for Fishan's Ltd
Brackets show minus figures.

2. Constructing a cashflow

- 1) cash inflow from cash sales, Cash from credit sales, interest rate from banks, cash from loan, sales of business assets.
- 2) cash outflow from payment to suppliers loan repayment
- 3) closing balance = opening + Net cashflow (cash inflow - cash outflow)

3. changes in cashflow variables



	June	July	August	September	October	November
Cash inflows						
Petrol and repairs	6700	6600	7200	6800	7100	7600
Shop and other sales	2250	2750	2300	3300	3850	4350
Total cash inflows	8950	9350	9500	10,100	10,950	11,950
Cash outflows						
Casual labour	800	800	800	800	800	800
Petrol and parts	4250	4300	4700	4500	4500	5000
Stock and other expenses	2450	2500	4500	5000	5600	5600
Total cash outflows	7500	7600	10,000	10,300	10,900	11,400
Net cash flow	1450	1750	(500)	(200)	50	550
Opening balance	450	1900	3650	3150	2950	3000
Closing balance	1900	3650	3150	2950	3000	3550

▲ Table 3 Cash flow forecast for Patel Motors

	June	July	August	September	October	November
Cash inflows						
Petrol and repairs	6700	6600	7200	6800	7100	7600
Shop and other sales	2250	2750	2300	3300	3850	4350
Debt repayment				400		
Total cash inflows	8950	9350	9500	10,500	10,950	11,950
Cash outflows						
Casual labour	800	800	1100	1100	1100	1100
Petrol and parts	4250	4300	4700	4500	4500	5000
Stock and other expenses	2450	2500	4500	5000	5600	5600
Computer equipment			1200			
Total cash outflows	7500	7600	11,500	10,600	11,200	11,700
Net cash flow	1450	1750	(2000)	(100)	(250)	250
Opening balance	450	1900	3650	1650	1550	1300
Closing balance	1900	3650	1650	1550	1300	1550

▲ Table 4 Amended cash flow forecast for Patel Motors

4. The use of cash flow forecast

- 1) Identifying the time of cash shortage and surplus.
- 2) When business would like to raise fund, lender often insist that businesses support their applications with document showing business performance.

5. The limitations of cash flow forecasts

- 1) some financial information used in forecasts will be based on estimates. It may cause the figures of cash inflow and outflow are not accurate.
- 2) Business activity is influenced by external factors e.g. changes in interest rate which will impact on business costs and revenue.