

To: Finance manager  
From:  
Subject: Cash flow forecast  
Date: February 2001

### **Introduction**

The following report analyses the cash flow forecast situation for Strobe Leisure plc and will cover the following areas: -

- An explanation of the purpose of a cash flow.
- An explanation of why a company such as Strobe needs a cash flow forecast.
- A six-month cash flow forecast for Strobe Leisure plc.
- An analysis of Strobes cash flow forecast situation at present.
- Final recommendation and conclusion.

### **Main findings section 1: An explanation of a cash flow forecast.**

Drawing up a cash flow forecast shows whether there is enough cash available to pay salaries and settle debts on time. It calculates the firm's reserves, which could be invested in expansion projects or new equipment. Accountants identify when short falls are likely to happen, and surplus funds are likely to become available. From the cash flow forecast the managers will hope to for see any possible cash flow problems and overdrafts might be needed.

### **Main findings section 2: An explanation of why a company such as Strobe needs a cash flow forecast?**

Strobe leisure will be able to forecast and predict when they might face a liquidity problem. Strobe will list all the inflows and outflows of cash that appear in the budget. Strobe will see whether an overdraft is needed or another short term finance is needed. The forecast will need to be monitored to monitor any unexpected cash flows. It is useful to know when a business is in trouble so Strobe can plan and there won't be a sudden panic when there is trouble.

### **Main findings section 3: A six month cash flow forecast for Strobe**

	July	August	September	October	November	December
Opening bank balance	100,000					
Cash inflows						

sales	£42,000	£34,000	£40,000	£44,000	£48,000	£50,000
Total receipts	£42,000	£34,000	£40,000	£44,000	£48,000	£50,000
Cash outflows						
Purchases	£26,000	£24,000	£20,000	£22,000	£20,000	£19,000
Expenses						
Wages/salaries	£5,000	£5,000	£5,000	£5,000	£5,000	£5,000
Rent/rates	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Insurance	£500	£500	£500	£500	£500	£500
Light/heat	£400	£400	£400	£400	£400	£400
Telephone	£100	£100	£100	£100	£100	£100
Repairs	£200	£200	£200	£200	£200	£200
VAT						£100
HP/leasing charges	£150	£150	£150	£150	£150	£150
Interest on loan	£30	£30	£30	£30	£30	£30
Loan repayments	£200	£200	£200	£200	£200	£200
Sundry expenses	£300	£300	£300	£300	£300	£300
Total repayments	£33,880	£31,880	£27,980	£29,880	£27,880	£26,980
Net cash flow	£8120	£2120	£12020	£14120	£20120	£23020
Opening bank balance	£100,000	£108,120	£110,240	£122,260	£136380	£156,500
Closing bank balance	£108,120	£110,240	£122,260	£136,380	£156,500	£179,520

#### **Main findings 4: An analysis of Strobe's Cash flow forecast situation at present.**

Strobe Leisure do have a healthy cash flow, a lot of profit is being made. At no point in the cash flow forecast they are overdrawn at any stage, this is because there is a healthy profit coming in every month. If Strobe did become overdrawn at any point due to low profits. They could either take a short term loan out, they could cut costs or take an overdraft.

#### **Main findings section 5: Recommendation and conclusion**

##### **Overdraft**

This is frequently used by businesses to provide finance for working capital. The overdraft is often used as a short term solution to cash flow problems.

##### **Advantages**

- 1 The business only pays interest on an amount overdrawn each day.
- 2 Cheap way of borrowing.

##### **Disadvantages**

- 1 Must be paid back with interest.

##### **Short term loan**

These include starter loans which provide short-term finance for a new business.

##### **Advantages**

- 2 It's quick to arrange

### Disadvantages

- 3 Must be paid with interest, security is usually required.

### Cut costs

Money can be saved by cutting down on material bought.

### Advantages

- 4 Reduces storage cost of high stock levels

### Disadvantages

- 5 It must be done carefully to meet customers orders.

An overdraft should be taken as it's the cheapest option, and interest only has to be paid on the amount of days taken. It's quick to get and no security is needed.