<u>Cash Flow</u>

A cash flow forecast is a document that predicts cash requirements in the future. It helps a business save money for things it may need in the future. Financial problems may arise if the business has more outgoings than income, such as unpaid bills or sudden money loss making the business low on money. Another business could also owe money to yours and go bust.

The business is most vulnerable to cash flow problems when they first start up as this is when there are more outgoings than money from customers. Certain areas, such as production, could have difficulties operating as the costs are too high. Businesses may also have cash flow problems due to other reasons, such as not selling as well as expected.

A business can improve their financial situation by borrowing money from a bank, cutting costs or increasing sales. Businesses use cash flow forecasting to anticipate months where they may have a shortfall and get ready for them by taking action before they happen. It may help the business if they identify areas where the business was weak or strong and change strategy to deal with any problems and maximise potential. The five parts of a cash flow forecast are: Receipts, payments, excess of receipts over payments, opening bank balance and closing bank balance.

<u>Cash Inflow:</u>

	A	B	C	D	E	F	G	H	I	J	K	L	M
1		Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2		£	£	£	£	£	£	£	£	£	£	£	£
3	Loan			10000									
4	Sales	3000	3000	3000	5000	5000	5000	5000	5000	5000	5000	5000	5000
5	Leasing Fee	300	300	300	300	300	300	300	300	300	300	300	300
6	Total Receipts	3300	3300	13300	5300	5300	5300	5300	5300	5300	5300	5300	5300

This section shows how much the business (in this case, a garden centre) has loaned from a bank, made in sales and been charged to lease the assets of the business. The major source of income for the garden centre is the public, but for temporary money, the bank can loan money to you.
The garden centre sells plants and seeds, with a café operating also, all of these will need renewing at some point so this will maximise profits. The garden centre has loaned money from the bank in order to grow the business, although the bank will expect the money back. The loan may be for growth of the centre, an addition, a new centre being built or high fees that need paying off.
The areas of the business that receive the money will be maintenance, research, staff training and expansion. The leasing fee is the cost of the equipment that does not belong to you; it belongs to another company, and vice versa. You have to pay them a leasing fee to keep the assets in your possession. In this case, the garden centre is making money from the leasing as it is listed under the Cash Inflow section. The garden centre could make money by leasing premises to the public who may want to grow on their land, if they don't have a garden at home, or by letting another business operate in their premises.
Total receipts means the total amount of money that the business is receiving, which in this case is the loans, sales and leasing fees all added together.

Cash Outflow

8	Stock	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500
9	Utility Bills	200	200	200	200	200	200	200	200	200	200	200	200
10	Insurance	150	150	150	150	150	150	150	150	150	150	150	150
11	Rent	700	700	700	700	700	700	700	700	700	700	700	700
12	Loan Repayment				250	250	250	250	250	250	250	250	250
13	Wages		2100	2100	2100	2100	2100	2100	2100	2100	2100	2300	2300
14	Telephone	50	50	50	50	50	50	50	50	50	50	50	50
15	Other				10000						50	50	50
16	Total Payments	2600	4700	4700	14950	4950	4950	4950	4950	4950	5000	5200	5200

The cash outflow section is the section that shows how much money is paid out by a firm due to operating costs and financial activities. The stock bought by the business is the plants, which will be sold for profit. Utility bills are essential because the business will have lighting, electricity and water which are essential to operate. Insurance is essential because if someone steals products or damages the premises the insurance will pay back the expenses. Rent is needed so the business can operate in the premises. Loan repayment is from the £10,000 loan from the bank. This may be needed for expansion or financial stability. Wages are needed so the business can carry on operating with staff. A telephone may be required so the business can do deals externally, contact other businesses or help customers via phone. Other costs may be for maintenance, rental of vans or other general costs the business may require.
Total payments are the amount that the business has to pay back for all aforementioned services that they have paid for.

Bottom Section

18	Opening Balance	1000	1700	300	8900	-750	-400	-50	300	650	1000	1300	1400
19	Net Cash Flow	700	-1400	8600	-9650	350	350	350	350	350	300	100	100
20													
21	Closing Balance	1700	300	8900	-750	-400	-50	300	650	1000	1300	1400	1500

The bottom section summarises financial all the financial activities carried out by the business. The opening balance is the balance that the company has brought forward from different activities, such as the previous year. Net cash flow is the cash receipts minus cash payments, essentially the amount of money the business keeps that is gained during this month. The closing balance is the balance of the business at the end of the measured period. (In this case, intervals of a month for the year)