
The Usefulness of Cash Flow Forecasts

Cash flow forecasts are important to businesses because it allows them to foresee how much capital they should have in a bank at any particular time of the year. They can achieve this by adding to an inventory all their expected cash inflows and to that adding up its cash outflows. The variation between the two is called the cash outflow and this is the amount the business expects to pay to other companies or individuals. Businesses will always endeavour to achieve a positive cash balance which happens when the income is greater than the outgoings. It also helps to plan for large, future purchases within the business. If they were to build an extension, buy more delivery vehicles or invest in another product idea then they can use the forecast to predict the totals costs such ventures will involve and whether they would be able to afford it.

Implications of Regular and Irregular Cash Flows

In business the inflow and outflow of money is not always consistent. On some days a business can receive huge payments while on others they may find themselves having to pay-out large sums to businesses. All businesses much prefer a steady stream of payments because it allows them to easily plan and predict the future cash flow of the business.

The implications of a regular cash inflow for BigC Productions is that they will have a consistent level of income every month which means they can pay their bills and plan for future purchases successfully. BigC Productions irregular inflows take place in August, September and October where they have a huge spike in income allowing them to pay off their bills and still maintain a profit.

The irregular outflow means that they would spend a huge amount in the month of April which severally lowers their closing bank balance meaning that they are struggling to pay their bills for the following months until they receive a large payment in August. The regular outflow that they have means that they are better able to plan for each month's payments. Although they could also get in contact with the local council and ask that they spread out their Rates payment to a monthly fee instead of once per year which will allow them to pay it off in a more even level.