**What have we learnt so far?**

A **cash flow forecast** shows the anticipated income and expenditure of the business and resulting surplus or shortfall which will occur each month.

While a thorough knowledge of your business profitability is vital, it is even more important to know the state of the business cash flow i.e:

* where your money is,
* where it is coming from and
* where it is going to.

Many businesses fail because they fail to control their cash flow.

The cash flow is probably the single most important document in your business plan - it is the document that will receive the most scrutiny by any investor or lender.

**Some thoughts:**

1: **The Future**

A cash flow forecast looks to the future. It allows you to forecast what will come into the business and when. It predicts when bills will have to be paid, and allows you to set aside money to budget for that.

2: **Budgeting**

A cash flow forecast is a budget. If you record the real figures (the ‘actual’) next to your predictions, you will be able to see how you’re doing, and whether you need to change your actions - either increase trade or slow it down to match your expectations.

3: **When Things Happen**

‘When’ things happen is all important in the cash flow; write down when you expect to receive money, for instance, not when the goods go out. If you buy equipment in May and expect to pay for it in June, for instance, the figure goes in the ‘June’ column, not May.

4: **Isn’t It All Guess Work?**

Most of the figures you write down will be guesses. However, you may have good reasons for arriving at them. For instance, next year’s electricity bills may be similar to last year’s, (if the business hasn’t expanded much), and the wages may be how much you’ve already agreed to pay. If figures need explaining, add ’Notes’ to the cash flow, so that the reader (a Bank Manager, for instance) can understand your reasons. For instance, a figure of $100 for ‘Travel’ may be based on using a certain van, doing a particular number of miles per month, and allowing annual figures for insurance and maintenance. Explain this.

5: **Income**

‘Income’ has to include all cash received, whether donations, sales, grants or loans. If this is your first year of operation, you may wish to put ‘start up’ costs before the first month’s column; otherwise, put it in with the other first month receipts. Income may vary from month to month: trading may be seasonal, also, trade may build up in time.

6: **Expenditure**

‘Expenditure’ covers everything you have to pay out. The biggest item is usually ‘stock’, or ‘cash purchases’. The other main items are wages and costs of running premises.

**Remember**

. If sales go up, costs usually go up also

. Some bills are paid monthly, some quarterly, some annually (or fortnightly eg wages)

. Seasonal factors: e.g. fuel bills go up in winter!

. Loan repayments usually include interest too

. ‘Drawings’ are your own minimum income, not staff wages