

Cashflow Forecasting

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A cash flow forecast will tell a business whether it needs to borrow money, or sell assets to fund the business or at what point does a business have to consider reducing costs?

Liquidity, the ability of the organisation to meet its short terms liabilities, is important to every business. In the current climate it is absolutely vital.

In these uncertain times you have a moral obligation to understand the cash position of your business over the next 6 months, at least. Will you need to borrow money, or sell assets to fund the business? Will you need to access financial support, and how much would you need? At what point do you have to consider drastically reducing costs and expenses? What bills will you have to pay and when? What cash inflows can you anticipate?

A cashflow forecast is important because it informs the reader of the business cash position. To be successful, you must have access to sufficient cash at all times. Cash is required to pay expenses and taxes, to repay bank loans, and perhaps most importantly to pay staff. Creditors, those you owe money to, can be put off or deferred, but it's not reasonable or responsible to delay paying employees.

Having cash is a key requirement for a business to stay solvent. When a business has no longer enough cash to pay its dues, it is often declared bankrupt.

If you are considering accessing any financial support you will be required to share your financial statements; Profit and Loss statement, Balance and Cashflow forecast.

Doing a cash flow analysis starts by establishing some good habits such as accurately recording details of trade transactions. There are a number of different ways businesses can do that, whether in a spreadsheet, accounting software or a cash book.

In essence it provides an overview of what monies a business owes to suppliers or what they are owed from customers.

Whatever system a business uses it should provide the necessary data for a cash flow forecast. This gives a business an accurate overview of what bills are owed or owing as well as known outgoings such as insurance payments, payroll and other recurring expenses.

Looking at the current situation a business then predicts future sales and purchases over a given forecast period.

This then gives a month by month overview of cash requirements in the business which builds the basis for a plan of action to manage the cash flow situation in the business.

There are a number of different cash flow forecast templates and the website Accounting Basics has a useful template and instructions how to use it. <https://www.businessaccountingbasics.co.uk/cash-flow-forecast/>.

If you are unsure where to start, seek external advice from business advisers or talk to your accountant.

The Business Support team of the University of Warwick Science Park is staffed with 'Access to Finance' specialists who manage Business Ready, a support service SMEs and Start Ups in the Coventry and Warwickshire area.

To access support for your business, contact us: