Definition

A cash flow projection is a financial forecast that estimates the inflow and outflow of cash for a specified period. It also predicts the expected cash position at specific points during the projected timeframe. Cash funds, in the context of this projection, encompass cash, checks, or money orders that are received or paid out.

Objective

The purpose of creating a cash flow projection is to identify cash shortages or surpluses in relation to the business's operational requirements during the projected period. When the projection reveals cash shortages, financial strategies must be adjusted to secure additional funds until a proper cash flow balance is achieved. This can be accomplished through means such as injecting more owner capital, obtaining loans, raising product prices, or reducing credit sales to customers. On the other hand, reducing cash outflows can be achieved by minimizing inventory, cutting back on equipment purchases and other fixed assets, or eliminating certain operating expenses. If the projection indicates excess cash, it may indicate excessive borrowing or idle funds that can be put to productive use. Ultimately, the objective is to develop a well-structured cash flow plan that, when implemented, ensures effective management of cash resources.

The spreadsheet

The cash flow projection worksheet included in this file offers a structured approach for documenting estimated cash inflows and outflows, allowing for comparisons with actual figures as they become available. It is important to note that not all entries listed in the spreadsheet will be applicable to every business, and certain pertinent entries may be omitted. Hence, it is recommended that you tailor the spreadsheet to suit the specific business for which the projection is being prepared, making necessary adjustments to the entries.

Prior to finalizing the cash flow projection and establishing a pricing framework, it is essential to have knowledge of or estimate various significant factors related to the business. These factors include determining the direct costs per unit for the products or services, assessing the monthly or yearly operational expenses, and establishing the sales price per unit. Ensure that the pricing structure allows the business to achieve reasonable breakeven objectives, including a satisfactory net profit, based on conservative sales targets being met. Additionally, consider identifying alternative sources of cash, apart from income generated from sales, such as loans, equity capital, rental income, or other potential sources.

Procedure

To simplify the process, here are some suggestions for working with the cash flow spreadsheet:

A) Use rounded dollar amounts instead of showing cents.

B) If it's a new business or there are significant changes, complete the "Pre-start-up Position" section of the cash flow column. This includes expenses like rent, telephone, and utilities deposits incurred before opening the business. Other items to consider are equipment purchases, alterations, owner's capital injection, and cash received from loans before actual operations begin.

C) Next, fill in the essential operating data (non-cash flow information) for the pre-start-up position, where applicable.

D) Complete the spreadsheet using the provided suggestions for each entry, found on the next worksheet.

CHECKING

To ensure accurate calculations and balance, perform the following minimum checks:

CHECK #1: The sum of Item #1 (Beginning Cash on Hand - 1st Month) and Item #3 (Total Cash Receipts - Total Column) minus Item #6 (Total Cash Paid Out - Total Column) should equal Item #7 (Cash Position at End of 12th Month). In other words, Item #1 + Item #3 - Item #6 = Item #7.

CHECK #2: The sum of Item A (Sales Volume - Total Column) and Item B (Accounts Receivable - Pre-start-up Position) minus Item 2(a) (Cash Sales - Total Column) minus Item 2(b) (Accounts Receivable Collection - Total Column) minus Item C (Bad Debt - Total Column) should equal Item B (Accounts Receivable at End of 12th Month). In other words, Item A + Item B (pre-start-up) - Item 2(a) - Item 2(b) - Item 2(c) = Item B (at 12th month).

CHECK #3: The total of Item #6 (Total Cash Paid Out) horizontally should match the total of all items under Item #5 (5(a) through 5(w)) in the total column on the right side of the form.

CHECK #4: The total of Item #3 (Total Cash Receipts) horizontally should match the total of all items under #2 (2(a) through 2(c)) in the total column on the right side of the form.

ANALYZE the relationship between the cash flow and projected profit for the period in question. Estimated profit is the difference between the estimated change in assets and the estimated change in liabilities, excluding owner withdrawals, asset appreciation, and changes in investments (the change can be positive or negative). Calculate this as follows:

The change in assets (before owner's withdrawal, asset appreciation, etc.) can be calculated by adding:

1) Item #7 (Cash Position - End of Last Month) minus Item #1 (Cash on Hand at the Beginning of the First Month).

2) Item #5 (t) (Capital Purchases - Total Column) minus Item F (Depreciation - Total Column).

3) Item B (Accounts Receivable - End of 12th Month) minus Item B (Accounts Receivable - Pre-start-up Position).

4) Item D (Inventory on Hand - End of Month) minus Item D (Inventory on Hand - Pre-start-up position).

5) Item #5 (w) (Owner's withdrawal - Total Column) or dividends, minus any increase in investment.

6) Item #5 (v) (Reserve and/or Escrow - Total Column).

The change in liabilities (before changes in assets) can be calculated by adding:

1) Item 2(c) (Loans - Total Column) minus 5(s) (Loan Principal Payment - Total Column).

2) Item E (Accounts Payable - End of 12th Month) minus E (Accounts Payable - Pre-start-up Position).

ANALYSIS

A) The cash position at the end of each month should be sufficient to cover the cash requirements for the following month. If there is insufficient cash, additional funds must be injected, or cash paid out must be reduced. Having excess cash on hand means that money is not being utilized effectively.

B) The cash flow projection, profit and loss projection, breakeven analysis, and cost control information are valuable tools for making decisions that can increase profits and ensure success if utilized properly.

C) The projection becomes more valuable when estimated information can be compared with actual data as it becomes available. It's important to follow through and complete the actual columns with available information. Use the cash flow projection to set new goals and plan operations for improved profitability. One suggested approach is to enter actual cash receipts and cash paid amounts in the "Actual" spreadsheet provided in this file.