



Cash Flow Statements and Forecasts

A cash flow statement is a summary of money coming into and going out of the business for a set time period. It is prepared regularly (monthly and at the end of the financial year) to show where cash is coming from and what it is spent on.

Things to check in your cash flow statement

A cash flow statement is **the most important tool the business has to check its financial health**. Watch out for warning signals, as these are reliable indicators the business might fail. Warning signals in a cash flow statement are:

- cash receipts are less than cash payments: you are running out of money
- net operating cash flow is an outflow: cash flow is negative
- net operating cash flow is less than profit after tax: you are spending more than you earn

Note: Net operating cash flow is the amount of cash that a company gets to keep through running its business after it has paid its bills. However, even if a business has a number of overdue bills, these do not affect the cash flow statement until they are paid in cash.

[Cash flow template \(XLS 51Kb\)](#)

Use this automated cash flow template to forecast and record cash flow. The template will update your figures as you type. If you're not sure how to use the template, there's a plain English explanation of cash flow as well as an easy-to-follow worked example in the information sheet Business essentials: cash-flow forecast and break-even point.

Cash flow forecasts

A cash flow forecast is essential for financial survival. (Cash flow has often been described as the oxygen of business finance.) It will also show you when more cash will leave the business than come in.

A cash flow forecast may be used for short term planning, e.g. to see when more cash than usual is needed in a month when several large bills are due, and the cash in the bank is likely to be low. If the business has plans to expand, use the forecast to find where too little cash flow could break the business.

[Business essentials: cash-flow forecast and break-even point \(PDF 128Kb\)](#)

Provides information on cash-flow planning and break-even analysis, including a sample calculation worksheet and diagrams.



The easiest way to prepare a cash flow forecast is to break the task into several steps. Then bring all the information together at the end. The four steps to preparing a cash flow forecast are:

Step 1. Prepare the income or sales for the business - a sales forecast

Sales depend on many variables, such as the types of customers, the terms you offer your customers for payment, economic events such as interest rate increases or employment rates, or what other competitors are doing.

For existing businesses, look at last year's sales figures and then decide what adjustments you will need to make based on past trends, i.e. sales increasing or decreasing, or staying the same. For businesses starting up, if you can accept your forecast sales probably won't match your actual sales, you stand a better chance of working out a realistic figure.

Step 2. Prepare detail on any other estimated cash inflows

Sources of cash ('cash inflows') vary from business to business. Examples are:

- GST rebates and tax refunds
- owners invest more money (add extra equity) in the business
- government or other grants
- loans are paid back to you or you sell an asset
- other sources such as royalties, franchise fees, or licence fees

Step 3. Prepare detail on all estimated cash outflows and expenses

When you calculate your cash outflows, work out what it costs to make goods available. By doing this, if you do need to adjust your sales numbers later (e.g. you actually sold 10 units in March when you thought you would sell five), it will be easier to adjust actual cost of goods sold.

Expenses can be money spent on administration or operation. Again, expenses depend on the type of business you are starting or already run.

Other cash outflows

Beyond its normal running expenses, cash leaves a business ('cash outflows') in other ways. Examples are:

- buying new assets
- 'one off' bank fees (i.e. loan establishment fees)
- loan repayments
- payments to the owner/s
- investing surplus funds



Step 4. Prepare your cash flow forecast by putting all the gathered detail together

At the beginning you will have decided the period the forecast should cover. Since cash flows are all about timing and the flow of cash, you will need to have an opening bank balance (i.e. actual cash on hand), then add in all the cash inflows and deduct the cash outflows for each period, usually by month. The number at the end of each month is referred to as the closing cash balance and this number becomes the opening cash balance for the next month. The information sheet (below) explains the steps with a worked example.

Types of cash flow

The cash flow in and out of the business are divided into three categories in the cash flow statement:

Operating activities

Day-to-day activities, the result of buying and selling of goods and services.

They usually include:

- receipts from income
- payment for expenses and employees
- funding of debtors
- funding to and from suppliers
- stock movements

Investing activities

Investments in future business activities, e.g. buying and selling fixed assets.

Can include items such as:

- payment for purchase of plant, equipment and property
- proceeds from selling the above
- payment for a new investment
- proceeds from selling an investment

Financing activities

This category covers how a business finances itself. Examples include:

- extra money the owners inject into the business
- money the business borrows
- money others borrowed from the business they pay back
- money the owners take out of the business

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