Constructing a Cash Flow Forecast

Method and Worked Example

A cash flow forecast shows the estimates of the timing and amounts of cash inflows and outflows over a period of time. The sections of a cash flow forecast are provided below, in the order that they would normally appear in a typical cash flow forecast.

Revenue
Total Revenue
Expenses
Total Expenses
Net Cash Flow
Opening Balance
Closing Balance

An example of a cash flow forecast for a six month period is shown below, which has been constructed using the following procedures:

- Individual revenue items are added up in order to give total revenue
- Individual expense items are added up in order to give total expenses
- Net cash flow is calculated by deducting total expenses from total revenue
- Opening bank balance is the closing bank balance from the previous month
- Closing bank balance is calculated by adding net cash flow to opening balance.

Let's consider the cash flow forecast below.

Belinda is forecasting her cash flow for the next six months for her sweet and chocolate shop.

	Jan	Feb	Mar	Apr	May	Jun
Revenue	£	£	£	£	£	£
Sweets	2 550	2 675	2 475	2 550	2 400	2 300
Chocolate	2 175	2 100	2 050	2 225	2 050	2 075
Total Revenue	**4 725**	**4 775**	**4 525**	**4 775**	**4 450**	**4 375**
Expenses						
Rent	500	500	500	500	500	500
Stock	1 750	1 900	1 775	2 100	1 450	1 550
Wages	2 000	2 000	2 050	2 050	1 850	1 800
Other Expenses	400	425	425	450	425	400
Total Expenses	**4 650**	**4 825**	**4 750**	**5 100**	**4 225**	**4 250**
Net Cash Flow	75	-50	-225	-325	225	125
Opening Balance	400	475	425	200	-125	100
Closing Balance	475	425	200	-125	100	225

Belinda sells two categories of product: sweets and chocolate. The money received from selling chocolates and sweets are added together to give 'Total Revenue'. For January, this is £4 725. This shows all of the money forecasted to come in to the business for January.

Next, the money out (or the expenses). All of the different expenses are recorded separately and added up to give 'Total Expenses'. In January, they amount to £4 650.

In order to calculate Net Cash Flow, the Total Expenses are deducted from Total Revenue. In the case of January, Total Revenue (£4 725) – Total Expenses (£4 650) = £75.

The Opening Balance for January is the Closing Balance from December of the previous year (this column isn't shown in the table above). It is always the case that the Opening Balance for a month is the Closing Balance of the previous month.

The Closing Balance for January is calculated by adding the Net Cash flow and the Opening Balance of the same month. For January, the Net Cash Flow is £75 and the Opening Balance is £400. Therefore the Closing Balance is £475.

The Opening Balance for February is the same as the Closing Balance for January (£475). The same process is followed to calculate Total Revenue, Total Expenses, Net Cash Flow, Opening Balance and Closing Balance for February to June.

What can be seen from the cash flow forecast is that there is a negative Net Cash Flow for February, March and April. This indicates that Belinda anticipates more money will be going out of the business than coming in. In April, Belinda forecasts that her Closing Balance will be negative and therefore she will need to put in place a measure such as an overdraft for this month. Alternatively, Belinda can look at ways at reducing expenditure or increasing income in April so that a negative Closing Balance is avoided.

Question 1

Josh Green manages a greengrocers and flower shop in Newcastle. He has produced a cash flow for the second half of the year, as below. In October, Josh plans to buy new fixtures and fittings (equipment) for his shop.

	Jul	Aug	Sep	Oct	Nov	Dec
Money In	£	£	£	£	£	£
Fruit	3 600	3 725	3 200	2 700	2 650	2 475
Vegetables	7 450	7 250	7 900	8 250	7 950	8 600
Flowers	4 000	4 125	4 300	3 750	3 975	4 125
Total Money In	A	15 100	15 400	14 700	14 575	15 200
Money Out						
Stock	9 450	9 500	9 200	D	8 900	8 750
Wages	2 000	2 050	2 000	1 900	1 900	1 900
Rent	800	800	800	800	800	800
Equipment	0	0	0	12 000	0	0
Other Expenses	700	425	600	800	600	400
Total Money Out	12 950	12 775	12 600	24 500	E	11 850
Net Cash Flow	2 100	B	2 800	-9 800	2 375	3 350
Opening Balance	1 500	3 600	C	8 725	-1 075	1 300
Closing Balance	3 600	5 925	8 725	-1 075	1 300	F

a) Calculate the figures indicated as letters in the cash flow forecast above.

b) What is happening to the amount of money coming in from selling fruit between August and December?

c) In which month was Total Money In the highest?

d) Which expense remained constant between July and December?

e) In which month does Josh estimate he will spend more than he earns?

Question 2

Amy Blackwood owns a plumbing business in Northampton. Amy is looking to expand her business but needs a bank loan of £10 000 in order to help her to do this, which she plans to pay back over 3 years. The bank has requested that Amy completes a cash flow forecast to show that she can afford the repayments. An extract of the cash flow forecast is shown below, showing when Amy would like to take out a bank loan.

	Jul	Aug	Sep	Oct	Nov	Dec
Money In	£	£	£	£	£	£
Revenue	2 500	2 650	2 100	2 500	3 975	4 125
Bank Loan	0	0	0	10 000	0	0
Total Money In	2 500	2 650	2 100	D	3 975	4 125
Money Out						
Stock	350	500	C	500	1 000	1 250
Wages	1 200	1 200	1 000	1 500	1 500	1 600
Rent	400	400	400	400	400	400
Loan Repayments	0	0	0	325	325	325
Other Expenses	300	350	400	600	9 500	450
Total Money Out	A	2 450	2 200	3 325	12 725	4 025
Net Cash Flow	250	B	-100	9 175	-8 750	100
Opening Balance	300	550	750	650	E	1 075
Closing Balance	550	750	650	9 825	1 075	F

a) Calculate the figures indicated as letters in the cash flow forecast above.

b) What is happening to the amount of money spent of stock between September and December?

c) In which two months is net cash flow negative?

Answers

Question 1

a) A – £15 050
B – £2 325
C – £5 925
D – £9 000
E – £12 200
F – £4 650

b) Decreasing
c) September
d) Rent
e) October

Question 2

a) A – £2 250
B – £200
C – £400
D – £12 500
E – £9 825
F – £1 175

b) Increasing
c) September and November