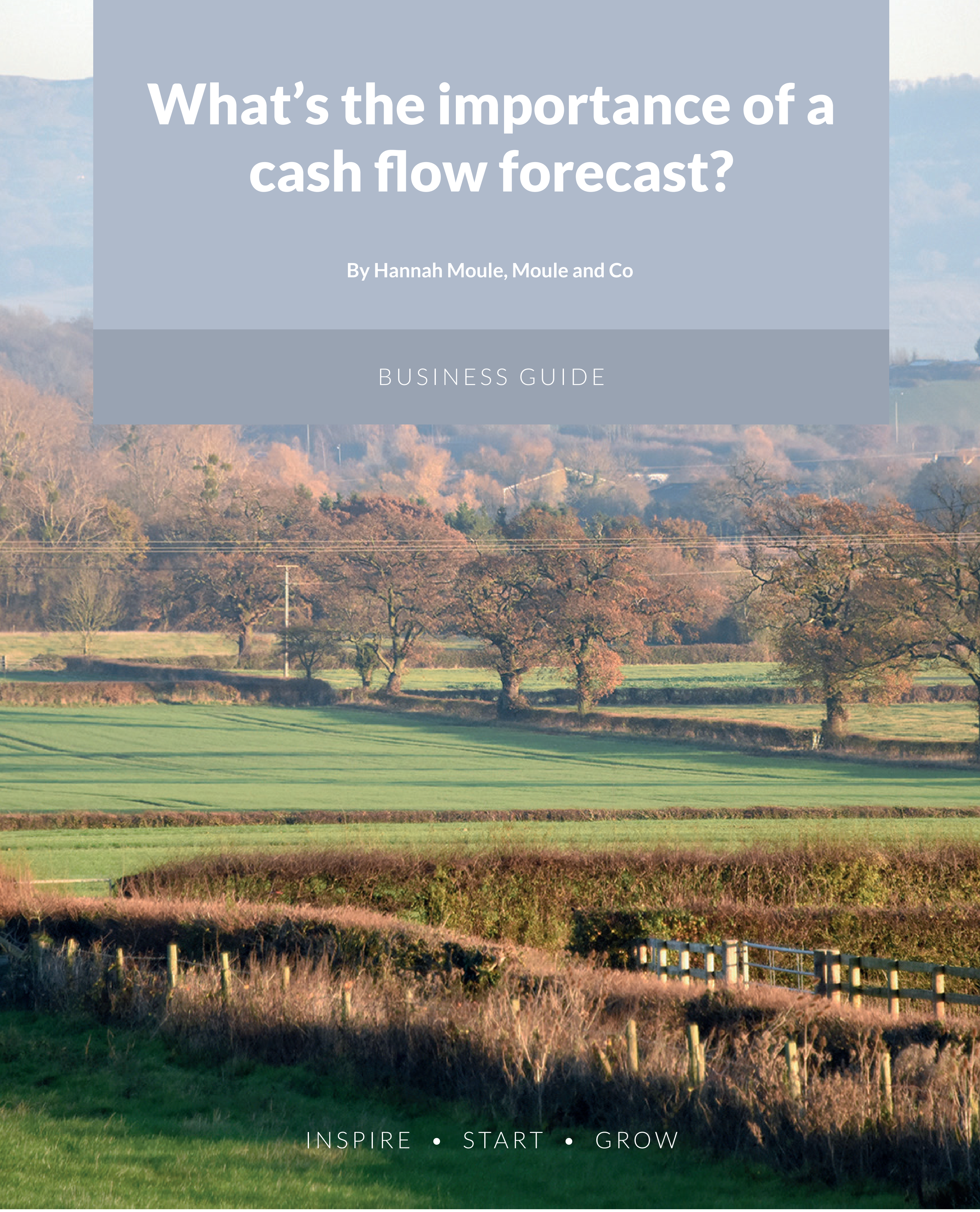
# What’s the importance of a cash flow forecast?

By Hannah Moule, Moule and Co

BUSINESS GUIDE



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# What's the importance of a cash flow forecast?

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**A cash flow forecast is one of the most important tools for budgeting how much money (cash) is likely to be coming in and going out of your business at any point.**

It should reflect all of your revenue sources such as sales and payments in, as well as all of your costs and expenses.

No matter how much time you spend or how well you prepare your cash flow forecast, your actual performance will almost certainly deviate from it to a lesser or greater extent. The trick to great cash flow management is to use your cash flow forecast as a 'working document.' Don't write it and put it away. Monitor your actual against your forecast on a monthly basis if possible. In particular, a cash flow forecast will allow you to better plan:

- The timing of any large purchases
- If you are likely to go into your overdraft or if you need an overdraft
- The effect of seasonal income

## What does a cash flow include?

Remember this does not a show your profit or loss, this is about identifying cash in and out and the effect of it. Your forecast should include the following three elements:

### 1) Revenue – money coming in

This is where you list any income into the business including all capital and trading income. For example, you would include capital money you put into the business, grant money, loans and of course your sales income.

For management purposes you may wish to break your sales income into different sections, for example, an equestrian business may break up their sales forecasts into:

- Riding lesson income
- Livery yard income
- Sale of surplus hay

You can put all of these together in one sales total per month, but splitting them up can give you the ability to assess different elements of your income. They will all add up to be the same thing. The number of entries in your revenue section depends on your business but typically you might expect between three and five entries. A farming business would typically have more.

All of your separate revenue forecasts get added together to give a monthly income.

*"Your cash flow does not show your profit or loss but identifies cash in and out of the business."*

**Top tips for creating your own cash flow:**

- Make sure your you are realistic, even conservative, about your sales income particularly in the early stages of a business you may find you aren't able to make as many sales while you are focussing on setting up your business
- Think through all your likely costs
- Remember the one-off costs
- Plan for seasonality – this might be particularly relevant to tourism businesses for example
- Timing – think about when the money will actually come in and go out, not when you raise the invoice or when it's due

**2) Expenses – money going out**

This is where you list all of the expenses your business is likely to have or does incur. If you are doing a cash flow forecast for a start-up business you need to think about all the likely costs and how often they are likely to occur.

For example, some setup/one-off costs such as setting up a website will be a one-off cost (or dependent on the terms of the website provider), but there are likely to be monthly running costs of the website. So, your one-off cost of making the website will go out of the cash flow once, followed by monthly costs of maintenance.

Some costs will occur once a year, for example, insurance or membership costs or some costs will be quarterly, for example, VAT, and some costs will be monthly, for example paying suppliers. There is no typical number of entries for costs but there would be few businesses with less than 10 entries.

All of your separate expenses forecasts get added together to give a monthly expenses total.

**3) Net cash flow**

This section shows the difference, on a monthly basis between your total income and your total expenses. If this figure is negative it means you should anticipate your expenses will be greater than your income in that month. The cash flow also shows the difference between your income and expenses on an accumulated basis. If you enter your cash at the start (amount in the bank) the cash flow will also show you what you expect to be in the bank each month.

*"The trick to great cash flow management is to use your cash flow forecast as a 'working document.'"*

## Author information

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Hannah and her team offer a wide range of rural professional consultancy services including; farm and rural planning, grant applications, BPS, cross compliance and budgeting. To find out more visit [www.mouleandco.co.uk](http://www.mouleandco.co.uk)