EXTRA 11.4

Example First Year Cashflow

Forecast

Preparing a cash flow analysis is the final element of financial planning. Compare the two charts Extra 11.1 and Extra 11.3 and see how Extra 11.3 breaks down the yearly figures into a monthly figure. Use your reasoning to see that some months are not shown in the example.

A cash flow analysis or forecast shows a monthly breakdown of income and expenditure. It tracks the anticipated flow of money that will come into the enterprise and money that will need to go out from it and usually covers a period of at least twelve months. See how the £6000 loan was needed in the first year to get things going, and see how a loss was made in the early months.

A Cashflow Analysis is a great management tool. Initially it starts as an educated guess, and a warning of dips in available cash to pay bills. This information allows avoidance plans to be made either by not buying until there is a profit, or holding off in paying your suppliers until funds are available. Banks, institutions and charitable bodies rate a cash flow analysis as very important, and it is unlikely for a social enterprise to get a loan or grant without providing a detailed and accurate cash flow forecast.

A cash flow analysis needs to be flexible. Where possible the figures need to be based on facts and evidence, but it will inevitably include an element of estimating certain items.

As each month goes by the guesswork can be replaced by accurate income and expenditure figures, and so it is wise to keep up to date with this task. It will show where seasonal fluctuations happen, allowing you to predict workloads and stock levels.

At the end of a year a clearer idea of the profit line will be at hand, allowing for closer assumptions about the following year's trading.

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