

Cash Flow Forecasts (Cash Budgets)

A cash budget is a financial plan/estimate to help a business make sure it will not run out of money.

With all the money coming IN and OUT of a business, it is very important that an organisation manages its cash very carefully.

If there is not enough cash to pay the bills, staff wages, business expenses etc then the business is going to get into financial difficulty as it may run out of money.

A cash budget is used to project future sales revenue as well as bills and expenses for the business. It helps to identify if there is going to be a cash flow shortage and so allow the business to do something about it,

Poor cash flow can be caused by;

- giving customers to long to pay their bills /invoices
- when there is too big a gap between getting money in from customers and having to pay their suppliers
- not generating enough sales
- spending too much on purchases (stock) that is not sold

When a business knows that it is going to run out of CASH, then it must decide where to get the necessary funds to solve the problem eg;

- Organise a bank overdraft or loan any pay it back over an agreed period of time
- Cut back on expenses
- Ask suppliers for extra time to pay or look for cheaper suppliers
- Spread the cost of big purchases
- Find extra capital or sell equipment or machinery no longer needed to bring in cash to fund other activities
- Increase marketing such as advertising and promotions to raise awareness of the business and increase sales

Example Cash Budget

	April	May	June
Opening Balance*	£5,000	£4,600	£4,530
<u>RECEIPTS (CASH IN)</u>			
Sales	£8,000	£9,500	£11,000
Total Cash Available	£13,000	£14,100	£15,530
<u>PAYMENTS (CASH OUT)</u>			
Purchases	£3,600	£4,000	£4,500
Wages	£2,500	£3,000	£3,000
Advertising	£1,000	£1,200	£1,200
Rent	£800	£800	£800
Fuel & Vehicle expenses	£300	£350	£350
Heat & Light	£200	£220	£250
Purchase - new pizza oven			£8,000
Total Payments	£8,400	£9,570	£18,100
Closing Balance*	£4,600	£4,530	-£2,570

* The opening balance is the amount of cash / bank balance the business has at the beginning of the month. The closing balance is what is left after all payments have been made