



Cash flow

Management;

The basics

One of the greatest misunderstandings that many small business owners hold is that profitability and bank balance are effectively one and the same thing.

One of the most important things a business owners need to learn to understand is the difference between them and why the difference matters so much

Many growing and profitable businesses fail because of a lack of understanding and consequent failure to manage the cashflow in the business appropriately.

The first step is to ensure that the small business owner truly understands the difference between cash and profit and a useful analogy in this regard is to think of Cash as the blood in the business body. The body of the business can be well put together and be structurally sound, and it may be growing well. But as it grows it needs more and more blood in its veins to keep all the organs and limbs and muscles working. Without enough blood, the body will simply fail and wither or die.

There are many resources available to encourage a better understanding of cash and flow and profitability, both on the web and in libraries and book stores, but there is nothing more critical for the health of a business than that the owner understands that cash and profitability are both equally important for a healthy business, the business cannot do without either of them for any length of time and that the two concepts have no direct link at all.

Understanding is of course only the first step, the next step is to implement some appropriate method of managing cashflow.

Following are two spreadsheet versions of a cashflow forecasting and management system that can be used and adapted to suit a small business client.

The Cash Flow Principles

The most basic principle of cashflow forecasting is this:

Start with the bankbalance at day 1. Add expected cleared deposits (cash, not invoices or uncleared cheques) for the period that you are forecasting. Deduct actual physical payments you have to make for the same period. Calculate the new bankbalance.

Example:

Starting bankbalance day1:	\$10,000.00
Plus expected receipts next 7 days:	\$12,000.00
Minus expected payments next 7 days:	<u>\$14,500.00</u>
Bankbalance 7 days from day 1:	\$7,500.00
Cashflow =	(-\$2,500.00)

*Please note you can apply to have soft copy versions of the following tools sent to you via email,
roland@newperspectives.com.au*

Comprehensive Cashflow spreadsheet

Below is the first cash flow spreadsheet for a 6 month period. The sheet follows the very basic concept as described above on a month by month basis

Cash Flow Forecast - 6 Months							
Month:	January	February	March	April	May	June	Totals
	1	2	3	4	5	6	
Receipts							
Sales - Products							0
Sales - Services							0
Other Sales/Income							0
Capital Injection							0
Total Receipts	0	0	0	0	0	0	0
Variable Expenses - COGS							
Direct Costs							0
Direct Costs							0
Delivery Costs							0
Contractors Fees	0	0	0	0	0	0	0
Other Direct Costs							0
Other Direct Costs							0
Other Direct Costs							0
Other Direct Costs							0
Other Direct Costs							0
Total Fixed Expenses	0	0	0	0	0	0	0
Fixed Expenses/Overheads							
Administration Expenses							
Accountants fees							0
Advertising & Promotion							0
Bank Fees & Charges							0
Bookkeeping fees							0
Business Insurance							0
Legal Fees							0
Licenses, Fees & Permits							0
Loan Repayments							0
Office Supplies							0
Postage							0

Printing & Stationary							0
Professional Services							0
Telephone/fax/Internet							0
Other							0
Office/Shop Expenses							
Cleaning							0
Electricity & Gas							0
Equipment Lease							0
Fitout costs							0
Repairs & Maintenance							0
Rent & Outgoings							0
Security							0
Shop Décor							0
Other							0
Staff Expenses							
Amenities							0
Training & Conferences							0
Uniforms							0
Wages & Salaries	0	0	0	0	0	0	0
Superannuation	0	0	0	0	0	0	0
Workers compensation							0
Other							0
Vehicle Expenses							
Fuel							0
M/V Insurance							0
Parking & Tolls							0
Registration							0
Repairs & Maintenance							0
Vehicle Lease							0
Total Expenses	0	0	0	0	0	0	0
Opening Balance	0	0	0	0	0	0	#REF!
Cashflow Surplus/Deficit (-)	0	0	0	0	0	0	0
Closing Balance	0	0	0	0	0	0	

Cashflow with aged debtors

The second cashflow spreadsheet is a simple tool to demonstrate the effect of Accounts payable and Receivable and debtor ageing on Cashflow. By altering the percentages of 30 day receipts, it is quite easy to demonstrate a set of circumstances where a business makes good net profit but nevertheless runs out of money and becomes insolvent.

Cash flow worksheet payment on 30 days																										
Starting bank balance	\$10,000.00																									
Starting sales per month	\$10,000.00																									
Sales growth per month	5%																									
Sales paid on 30 days	25%																									
Sales paid on 60 Days	25%																									
Sales paid on 90 days	25%																									
Sales paid COD	25%																									
Wages	\$ 5,000.00 (Wages keep pace with sales growth)																									
Office lease	\$ 2,500.00																									
Loan repayments	\$ 800.00																									
Direct expenses	\$ 500.00 (Direct expenses grow half as fast as sales growth)																									
Expenses paid on 30 days	\$ 500.00 (Expenses on 30 days keep pace with sales growth)																									
	<table border="1"> <thead> <tr> <th>Jan</th> <th>Feb</th> <th>Mar</th> <th>Apr</th> <th>May</th> <th>Jun</th> </tr> </thead> <tbody> <tr> <td>\$10,000</td> <td>\$3,200</td> <td>-\$1,263</td> <td>-\$3,270</td> <td>-\$2,700</td> <td>-\$1,923</td> </tr> </tbody> </table>	Jan	Feb	Mar	Apr	May	Jun	\$10,000	\$3,200	-\$1,263	-\$3,270	-\$2,700	-\$1,923													
Jan	Feb	Mar	Apr	May	Jun																					
\$10,000	\$3,200	-\$1,263	-\$3,270	-\$2,700	-\$1,923																					
Bank balance																										
Sales paid on 30 days	<table border="1"> <tbody> <tr> <td></td> <td>\$2,500</td> <td>\$2,625</td> <td>\$2,756</td> <td>\$2,894</td> <td>\$3,039</td> </tr> <tr> <td>Sales paid on 60 Days</td> <td></td> <td>\$2,500</td> <td>\$2,625</td> <td>\$2,756</td> <td>\$2,894</td> </tr> <tr> <td>Sales paid on 90 days</td> <td></td> <td></td> <td>\$2,500</td> <td>\$2,625</td> <td>\$2,756</td> </tr> <tr> <td>Sales paid COD</td> <td>\$2,500</td> <td>\$2,625</td> <td>\$2,756</td> <td>\$2,894</td> <td>\$3,039</td> <td>\$3,191</td> </tr> </tbody> </table>		\$2,500	\$2,625	\$2,756	\$2,894	\$3,039	Sales paid on 60 Days		\$2,500	\$2,625	\$2,756	\$2,894	Sales paid on 90 days			\$2,500	\$2,625	\$2,756	Sales paid COD	\$2,500	\$2,625	\$2,756	\$2,894	\$3,039	\$3,191
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Sales paid on 60 Days																										
Sales paid on 90 days																										
Sales paid COD																										
Total Sales	\$2,500 \$5,125 \$7,881 \$10,775 \$11,314 \$11,880																									
Wages	\$5,000 \$5,250 \$5,513 \$5,788 \$6,078 \$6,381																									
Office lease	\$2,500 \$2,500 \$2,500 \$2,500 \$2,500 \$2,500																									
Loan repayments	\$800 \$800 \$800 \$800 \$800 \$800																									
Direct expenses	\$500 \$513 \$525 \$538 \$552 \$566																									
Expenses paid on 30 days	\$500 \$525 \$551 \$579 \$608 \$638																									
Subtotal expenses	\$9,300 \$9,588 \$9,889 \$10,205 \$10,537 \$10,885																									
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