

# Cash Flow

## Cash Flow

**Definition:** The money that flows into and out of a business on a day-to-day basis.

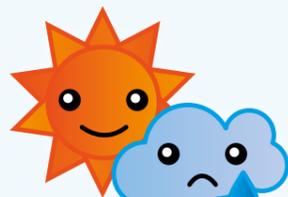


## Cash Flow Forecast

**Definition:** Sets out a business' expected inflows and outflows of cash over a period of time.

**Why are cash flows important:**

- May be part of a business plan → when a business wants to borrow money
- Forewarns about future possible cash flow problems → helps a business to put a plan in place
- Helps bank decide whether to give loan → suggests ability to repay.



**External events which may result in the actual cash flow being different from the forecast:**

- Increased/decreased taxes → will change the amount of cash held
- Interest rates → change in amount of cash given to banks
- Legislation → may change the services offered and therefore cash available → minimum wage
- Weather → will change number of goods sold/ expenditure of customers
- Increase in costs → wages/fuel etc.
- Inflation → increase costs → reduce customers
- Competition → attracts customers away
- Breakage of equipment → fewer items to sell → costs of repair.

## Turnover (Revenue)

**Definition:** The value of sales / income / revenue of a business / money made from selling goods or services.

**Calculation:** Selling Price × Quantity Sold

## Expenses of a Business

**Examples:**

- rent / salary / wages / utilities / tax / fuel / insurance / marketing / telephone / broadband / business rates.

## Net Cash Flow

**Definition:** Another word for predicted 'profit' on a cash flow forecast.

**Calculation:**

Net Cash Flow = Total Inflow - Total Outflow



## Opening Balance

**Definition:** The cash available to a business at the start of a month, carried over from the closing balance of the previous month.

## Closing Balance

**Definition:** Cash remaining in a business at the end of a month.

**Calculation:**

Closing Balance = Opening Balance + Net Cash Flow

## Ways to Improve Cash Flow Position

- **Reducing staff**
  - ✓ will reduce the wages bill
  - ✗ but this may lead to an inferior service → or reduced output → loss of customer → so revenue may fall.
- **Buying cheaper materials**
  - ✓ will reduce production costs → and lead to lower prices → which could generate more custom
  - ✗ but customers will not be happy about the quality of the product → so sales may fall.
- **Delaying payment to creditors**
  - ✓ will allow cash to be used for other purposes
  - ✗ but suppliers may become reluctant to offer trade credit.
- **Chasing up bad debtors**
  - ✓ may generate cash
  - ✗ but may lead to cash problems for customers → who may not be able to pay any debts.
- **Increasing promotions**
  - ✓ may lead to increased sales
  - ✗ but may have no impact on sales → and will be expensive to set up.
- **Raising finance/from bank/selling assets**
  - ✓ can generate cash to pay day-to-day bills
  - ✗ but this will have consequences → the money loaned will have to be paid back.
- **Increase/reduce price**
  - ✓ may lead to more revenue if sales don't fall
  - ✗ but revenue may fall if they get fewer customers.

