Cash Flow Guidance Notes

first ark social investment

What is a Cash Flow Forecast?

A Cash Flow Forecast is an estimation of the money you expect your business to bring in and pay out over a period time. It should reflect all your likely income sources and compare these against your likely business expenses.

How do I complete my Cash Flow Forecast?

A Cash Flow Forecast is made up of three key sections:

1. Income – money coming in

In this section, please list any funds that you have coming in to the organisation such as sales, grants or other investments, including loans. Note there is no set number of income streams and will depend on your business model.

2. Expenses – money going out

In this section, you will need to list any expenses your business is likely to incur, for example - rent, staff wages, council tax, supplier costs, marketing and promotional expenses etc. You'll need to think about costs that do not occur on a regular monthly basis, like V.A.T. Please ensure you include things like loan repayments, or specialist expenses you are likely to pay. Again, the number of items you include will depend on your business model.

3. Net cash flow – the balance

This final section is simply the difference between your total income and your total expenses.

e.g. "total income – total expenses = Net cash flow"

FYI, if this figure is negative, it means that you are anticipating your expenses will be greater than your income in that period; conversely, if the figure is positive, it means you are anticipating your income to be greater than your expenses and to deliver a profit/surplus. This again will fluctuate dependant on seasonality, non-regular costs and general business model.

Please note that in this section any market research will have to be referenced.

Tips:

Be realistic in terms of income

It is important to be realistic. Particularly in the early stages as you may find that you aren't able to make as much income whilst you're focusing on building up awareness about your product or service. It's always better to make conservative estimates and over exceed on your targets, than find yourself over committed or under prepared.

Make sure you understand the difference between income and expenditure.

- **Income**, is any money your business generates. You may like to include separate line items for your individual products, services sales, grants or loans, particularly if each product contributes a significant amount of income
- **Expenses**, or costs, are the items you'll need to pay for in order to produce and/or deliver your products or services, promote and manage your business.

Remember that some of your costs will be recurring costs and others will be ad hoc.

- **A recurring cost** is one that doesn't change over the course of the forecast. For example, your premises rent, insurance and loan repayments etc.
- **An ad hoc cost** is one that changes according to your needs. For example, supplier costs, material costs, venue hire, printing and travel expenses etc.

Plan for seasonality and base your figures on a range of typical scenarios (like quiet or busy periods)

Seasonality doesn't affect everyone in the same way. For example, if you're starting a business in an area that has a booming tourist economy in the summer months but is very quiet during winter, this should be reflected in your forecasted sales figures and costs. However, even if seasonality doesn't affect you in this way, every business goes through quiet periods and busy periods. Depending on your fixed and variable costs, this may create more or less pressure on your cost base during this period.

Think about the promotional activities you've got planned and the sales you expect these to generate.

If you expect one of your promotional campaigns to deliver a high volume of new sales during a key month, you should try and reflect this in your numbers. Equally, if there are certain periods where you won't have a large marketing budget in place, think about the impact this is likely to have on your income.