GUIDELINES FOR PREPARING A CASH FLOW PROJECTION

GENERAL

DEFINITION: A cash flow projection is a forecast of cash funds* a business anticipates receiving, on the one hand, and disbursing, on the other hand, throughout the course of a given span of time, and the anticipated cash position at specific times during the period being projected.

OBJECTIVE: The purpose of preparing a cash flow projection is to determine deficiencies or excesses in cash from that necessary to operate the business during the time for which the projection is prepared. If deficiencies are revealed in the cash flow, financial plans must be altered either to provide more cash by, for example, more equity capital, loans, or increased selling prices of products, or to reduce expenditures including inventory, or allow less credit sales until a proper cash flow balance is obtained. If excesses of cash are revealed, it might indicate excessive borrowing or idle money that could be “put to work.” The objective is to finally develop a plan which, if followed, will provide a well-managed flow of cash.

THE FORM: The cash flow projection form provides a systematic method of recording estimates of cash receipts and expenditures, which can be compared with actual receipts and expenditures as they become known — hence the two columns, Estimate and Actual. The entries listed on the form will not necessarily apply to every business, and some entries may not be included which would be pertinent to specific businesses. It is suggested, therefore, that the form be adapted to the particular business for which the projection is being made, with appropriate changes in the entries as may be required. Before the cash flow projection can be completed and pricing structure established, it is necessary to know or to estimate various important factors of the business, for example: What are the direct costs of the product or service per unit? What are the monthly or yearly costs of the operation? What is the sales price per unit of the product or service? Determine that the pricing structure provides this business with reasonable break-even goals (including a reasonable net profit) when conservative sales goals are met. What are the available sources of cash, other than income from sales; for example, loans, equity capital, rent, or other sources?

PROCEDURE: Most of the entries for the form are self-explanatory; however, the following suggestions are offered to simplify the procedure:

(A) Suggest even dollars be used rather than showing cents.

(B) If this is a new business, or an existing business undergoing significant changes or alterations, the cash flow part of the column marked “Pre-start-up Position” should be completed. (Fill in appropriate blanks only.) Costs involved here are, for example, rent, telephone, and utilities deposits before the business is actually open. Other items might be equipment purchases, alterations, the owner’s cash injection, and cash received from loans before actual operations begin.

(C) Next fill in the pre-start-up position of the essential operating data (non-cash flow information), where applicable.

(D) Complete the form using the Item-By-Item Instructions on the reverse side.

* Cash funds, for the purpose of this projection, are defined as cash, checks, or money order, paid out or received.
### ITEM-BY-ITEM INSTRUCTIONS FOR CASH FLOW PROJECTION

1. **CASH ON HAND**  
   *(Beginning of month)*  
   Cash on hand same as (7), Cash Position Previous Month

2. **CASH RECEIPTS**  
   *(a) Cash Sales*  
   All cash sales. Omit credit sales unless cash is actually received.
   *(b) Collections from Credit Accounts*  
   Amount to be expected from all credit accounts.
   *(c) Loan or Other Cash injection*  
   Indicate here all cash injections not shown in 2(a) or 2(b) above. See “A” of “Analysis.”

3. **TOTAL CASH RECEIPTS**  
   *(2a+2b+2c = 3)*  
   Self-explanatory.

4. **TOTAL CASH AVAILABLE**  
   *(Before cash out) (1 + 3)*  
   Self-explanatory.

5. **CASH PAID OUT**  
   *(a) Purchases (Merchandise)*  
   Merchandise for resale or for use in product (paid for in current month).
   *(b) Gross Wages (Excludes withdrawals)*  
   Base pay plus overtime, if any.
   *(c) Payroll Expenses (Taxes, etc.)*  
   Include paid vacations, paid sick leave, health insurance, unemployment insurance, etc. (this might be 10% to 45% of 5[b]).
   *(d) Outside Services*  
   This could include outside labor and/or material for specialized or overflow work, including subcontracting.
   *(e) Supplies (Office and operating)*  
   Items purchased for use in the business (not for resale).
   *(f) Repairs and Maintenance*  
   Include periodic large expenditures such as painting or decorating.
   *(g) Advertising*  
   This amount should be adequate to maintain sales volume — include telephone book yellow page cost.
   *(h) Car, Delivery, and Travel*  
   If personal car is used, charge in this column — include parking.
   *(i) Accounting and Legal*  
   Outside services, including, for example, bookkeeping.
   *(j) Rent*  
   Real estate only (see 5[p] for other rentals).
   *(k) Telephone*  
   Self-explanatory.
   *(l) Utilities*  
   Water, heat, light, and/or power.
   *(m) Insurance*  
   Coverages on business property and products, e.g., fire, liability; also workman’s compensation, fidelity, etc. Exclude “executive” life (include in 5[w]).
   *(n) Taxes (Real estate, etc.)*  
   Plus inventory tax — sales tax — excise tax, if applicable.
   *(o) Interest*  
   Remember to add interest on loan as it is injected. (See 2[c] above.)
   *(p) Other Expenses (Specify each)*  
   Unexpected expenditures may be included here as a safety factor.
   *(q) Miscellaneous (Unspecified)*  
   Small expenditures for which separate accounts would not be practical.
   *(r) Subtotal*  
   This subtotal indicates cash out for operating costs.
   *(s) Loan Principal Payment*  
   Include payment on all loans, including vehicle and equipment purchases on time payment.

6. **TOTAL CASH PAID OUT**  
   *(Total 5[a] through 5[w])*  
   Self-explanatory.

7. **CASH POSITION**  
   *(End of month) (4 – 6)*  
   Enter this amount in [1] Cash on hand following month — See “A” of “Analysis.”

### ESSENTIAL OPERATING DATA  
*(Non-cash flow information)*

<table>
<thead>
<tr>
<th>A. Sales Volume (Dollars)</th>
<th>This is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (Actual sales performed — not orders received).</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Accounts Receivable (End of month)</td>
<td>Previous unpaid credit sales plus current month’s credits sales, less amounts received current month (deduct “C” below).</td>
</tr>
<tr>
<td>C. Bad Debt (End of month)</td>
<td>Bad debts should be subtracted from (B) in the month anticipated.</td>
</tr>
<tr>
<td>D. Inventory on Hand (End of month)</td>
<td>Last month’s inventory plus merchandise received and/or manufactured current month minus amount sold current month.</td>
</tr>
<tr>
<td>E. Accounts Payable (End of month)</td>
<td>Previous month’s payable plus current month’s payable minus amount paid during month.</td>
</tr>
<tr>
<td>F. Depreciation</td>
<td>Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service.</td>
</tr>
</tbody>
</table>

### ANALYSIS

A. The cash position at the end of each month should be adequate to meet the cash requirements for the following month. If too little cash, then additional cash will have to be injected or cash paid out must be reduced. If there is too much cash on hand, the money is not working for your business.

B. The cash flow projection, the profit and loss projection, the break-even analysis, and good cost control information are tools which, if used properly, will be useful in making decisions that can increase profits to insure success.

C. The projection becomes more useful when the estimated information can be compared with actual information as it develops. It is important to follow through and complete the actual columns as the information becomes available. Utilize the cash flow projection to assist in setting new goals and planning operations for more profit.