MONEY TALKS
NO CRYSTAL BALL NEEDED

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MAINTAINING CASHFLOW IS THE KEY TO RUNNING ANY BUSINESS SUCCESSFULLY, AND THE ONLY WAY TO KEEP AN EYE ON HOW YOU'RE TRACKING AND WHERE YOU NEED TO BE IS TO DO CASHFLOW FORECASTS. BRUCE MONTGOMERY TAKES A LOOK.

Cashflow is the lifeblood of every business. There have been many instances over the years of companies with fantastic profits failing because of poor cashflow.

Putting together a cashflow forecast for a 12- to 24-month period is one of the most useful tasks a business owner can perform, as this will immediately highlight any peaks or troughs in the cashflow. This information will then assist a business owner with making decisions such as when to make a major asset purchase or when to inform the bank that assistance will be required.

Obviously, any lender will be far more co-operative if you're able to provide them with a forecast showing that the shortage was expected and details as to how and when the shortage will be overcome.

A cashflow forecast should be broken down into two parts. Initially, the forecast should be developed as a 12-month version, giving an insight as to how the cashflow will look on a monthly basis. Each month should then be broken down into weekly forecasts, giving a better idea of how the cashflow will be during each month and allowing you to plan when payments can be made. This can be really useful where more cash than usual is needed in a particular month, for example, when several large annual bills are due, and the cash in the bank is likely to be low.

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The cashflow forecast is also a valuable tool in finding where cashflow could break a business, especially if a business owner wants to expand. For example, a seasonal retailer, after months of quiet trading, will need to purchase additional stock, employ extra staff and advertise for the upcoming peak season. But the owner may also be planning to open another shop. After several slow months, the cash supply will be extremely low and the seasonal costs, coupled with the added expense of a new shop, will put huge pressure on the businesses cashflow. Things will be very tight for several months, even with good takings, so the cashflow will need careful planning.

When completing a forecast I would recommend discussing the document with your accountant. If you don't have regular meetings with your accountant, then at the very least provide them with a copy and ask for some feedback. Once you're happy with the final version I would also recommend providing a copy to your bank manager. The more open you are with them the more likely they are to provide help when it's needed.

There are two important parts to a cashflow forecast. The first is the initial preparation and establishing what the expected cashflow will look like. The second part is monitoring your actual cashflow and completing regular comparisons to ensure the business is performing as expected.

It is important to remember that your cashflow forecast is a fluid document. It should be reviewed regularly and adjusted when necessary. If you've had a particularly good first three months, then you need to revise your forecast accordingly. It is pointless comparing your current performance with a projection that has a completely different starting point.

As mentioned earlier, cashflow and profit are completely different. Cashflow is based purely on money in and out of the bank account. Therefore, when preparing the forecast, all items should be entered inclusive of GST. You will also need to ensure you have included any capital expenditure such as GST payments, asset purchases, loan repayments and funds introduced. A cashflow projection will not include non-cash items such as depreciation or assets bought on finance.

For business owners just starting out on their own or developing a new part of their business, estimating cash in and out is hard as there are so many unknowns. In this situation it is vital that some research is undertaken as to how similar businesses are performing. If you know a business owner in a similar field then talk them and, once again, talk to your accountants. It is highly likely they have other clients in similar businesses and can provide some insight into the cashflow needs. ●