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Are you on top of your cash flow forecast?

Gayle Bryant
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There's no point having a cash flow forecast if you don't take any notice of it. An effective cash flow forecast can mean the difference between your business succeeding or failing, so how do you ensure you stay on top of this important business planning tool?

Accounting firm Azure Group's managing director Michael Derin says the point of having a cash flow forecast is to know where you are likely to be financially in the future.

"You can have daily cash flow issues where you may be struggling to pay bills, but a proper forecast shows you where you are going to be in three to six months or beyond," he says. "It enables you to see where you will be from month-to-month so you can anticipate if you are going to have issues with any future payments."

He says the forecast can identify areas that may cause issues such as times of the year when sales may be slow or when big expenses such as Goods and Services Tax are due. It is imperative to forecast the likely fluctuations in your income so you can make arrangements for these times.

"If you know that in January you have planned to have an expensive technology upgrade then you can start taking action now about how you will deal with the costs then," Derin says. "If you have the cash available that's fine but if not you may want to start approaching banks now to help you cope with the outlay."

Derin says to ensure you are on top of your forecast you need to work out your cash inflows, such as income, borrowings from the bank, capital from investors or from selling assets, and then work out your expenditure, such as payroll, super and ongoing expenses.

"A cash flow forecast has to come from somewhere," he says. "We do what we call a three-way financial plan which includes profit and loss, balance sheet and cash flow forecast that reconciles into the future so we know what the business will look like."

He says making sure you are on top of your cash flow forecast depends to a large extent on what type of business you run. "It is easy to say that if you are not meeting your forecast you should cut costs," Derin says. "But you should also look to see where you can get more revenue. This might include changing the way you deal with your clients in order to get them to pay their invoices earlier."

HLB Mann Judd director of business services, Carolyn Patman agrees that focusing on receivables turnover is one way to stay on top of your forecast. "The longer it takes to get your money from debtors the more likely it will be that you have to finance your business through loans or an overdraft," she says.

She adds another way to stay on track is to avoid purchasing too much stock or stock that will become obsolete quickly. "If your stock sits around for too long then it eats into your available cash," she says. "So you need to make sure your stock turnover is under control."

Options available if your forecast is unlikely to be met include deferring any planned investments or raising additional money from the banks.

"You may find you do need to cut costs," Derin says. "And this is the purpose of having a forecast – it is to drive strong, proactive, decision-making."

You also need to keep your forecast up to date and check it regularly. "If there is a problem you need to deal with it straight away," Derin says. "If your sales are down you can't hope that the numbers will sort themselves out."

This story was found at: ***http://www.smh.com.au/small-business/my-business-success/are-you-on-top-of-your-cash-flow-forecast-20101203-18jbk.html***