Using cash flow data

Key Terms

Cash – is the liquid assets of the business; bank balance plus cash in the business

Cash Inflow - the amount of money entering a business's bank account

Cash Outflow – the amount of money leaving a business bank account

Liquid assets – are any asset that can be used in the short term to pay for things

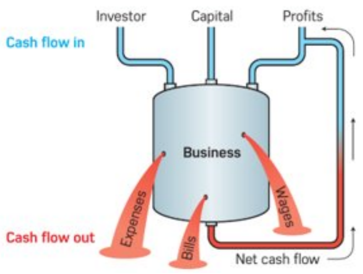
Cash flow statement – the statements of actual cash inflow and outflow over a period of 12 months

Cash flow forecasts – cash flow statements that predict the cash inflow and cash outflow for an enterprise over a period of time

Net cash flow – the difference between cash inflow and cash outflow

Sales – generate revenue and therefore the cash flows into a busines

Purchase – buying of goods and services and therefore the cash flows out of the business



Cash

It is important to a business without cash it cannot not survive in the medium to long run. Without cash it cannot:

- Pay suppliers
- Buy new raw materials or stock
- Pay workers
- Operate machinery
- Market its products

Cash flow problems exists when a business has a negative cash balance at the end of the month

The importance of cash flow forecasts

- Make business decisions
- Spot potential cash short falls
- Identifying negative closing balances – make plans (overdraft)
- Can monitor actual against predicted
- Identify positive closing balance can look to grow business

Information on a cash flow statement

- **Receipts** – the total flow of cash into the business
- **Payments** – the total flow of cash out of the business
- **Net cash flow** – the difference between the cash coming into the business and the cash flowing out
- **Opening balance** – the money carried forward from the previous month or what was left last month
- **Closing balance** – the net cash flow plus the opening balance is what is left in the business at the end of the month. This will also be the opening balance for the next month

Solutions to cash flow problems

- Cutting costs- looking at fixed and variable costs
- Increasing revenue – raising its prices or doing promotions
- Reducing stock levels
- Reducing credit periods
- Delay payments
- Selling off assets
- Making an early payment bonus – give customers a discount for paying invoice early
- Short-term cash solutions – overdraft

£'000	Jan	Feb	Mar	Apr	May
Cash inflows					
Sales	46	67	73	36	80
Cash outflows					
Production materials	15	18	22	14	25
Wages and salaries	18	30	30	25	30
Marketing	6	1	5	3	5
Other overheads	12	4	5	13	5
Total cash outflows	**51**	**53**	**62**	**55**	**65**
Net cash flow	**-5**	**14**	**11**	**-19**	**15**
Opening balance	25	20	34	45	26
Closing balance	20	34	45	26	41

Cash flow problems

They exist when a business has a negative cash balance at the end of a period. They would analyse their inflow and outflow. Cash shortages can lead to the inability to pay wages. The business may therefore have to sell assets to pay expenses. Failure to cover debts can result in the business going into receivership (when an organisation takes control of all the assets of the failing business and turns them into cash to try to pay off the business debts) and closing down.

Other reasons for poor cash flow:

- It might overtrade (grow too quickly without enough funds)
- Debtors may not pay on time
- Might have unexpected payments
- All of its bills may come in at the same time.