

## Cash flow and business re-forecasting



Workshop designed by

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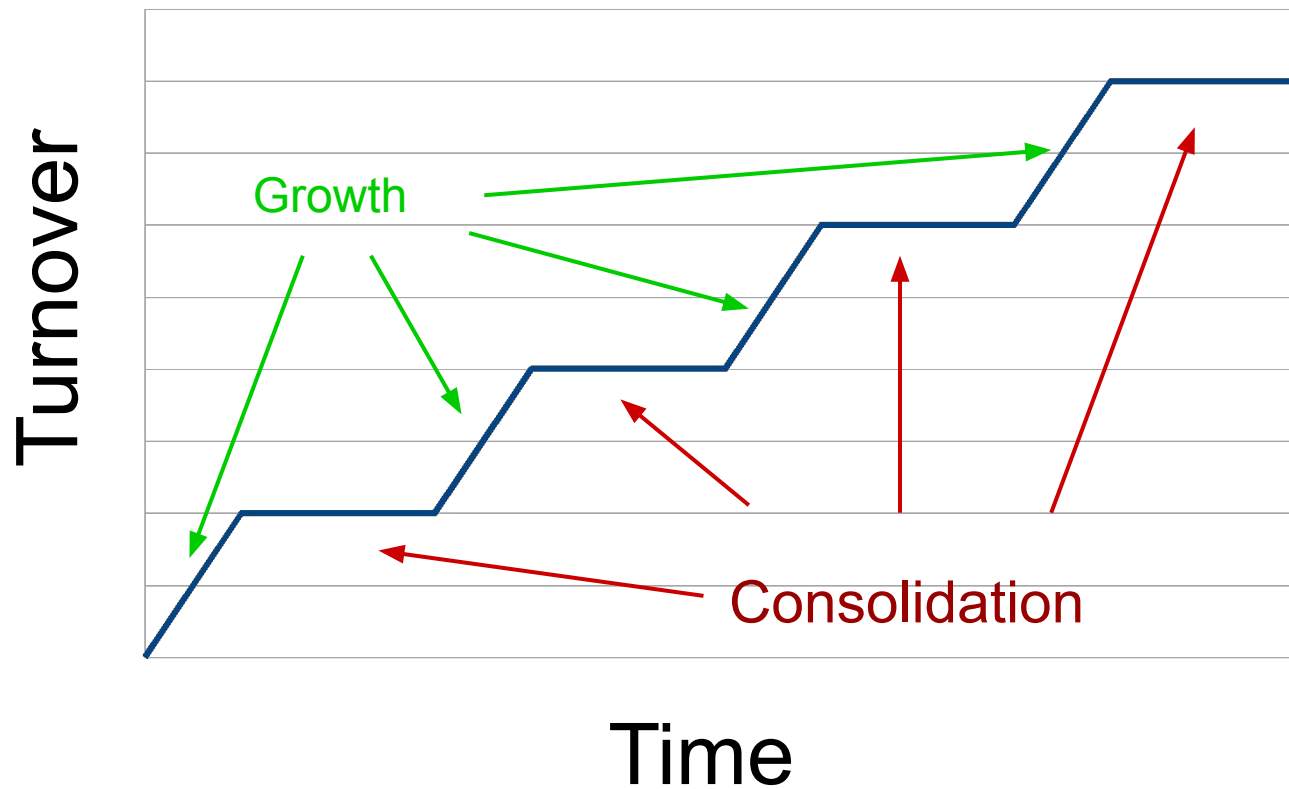
## Cash flow and business re-forecasting –

- What is a cash flow forecast?
- Why do we cash flow forecast?
- Types of cash flow forecast?
- How to cash flow forecast?
- Re-forecasting due to Covid-19

## What is a cash flow forecast?

- A cash flow forecast looks at the balance of all money flowing into and out of your organisation at regular intervals
- The interval depends on the predictability of your cash flow, the volume of cash flows, your stage in the business cycle and the tightness of your cash flow

# Business Growth Pattern



## What is a cash flow forecast?

- Make it a weekly cash flow forecast for a bakery, shop or any other co-ops with large cash flow
- Also for organisations in a period of rapid expansion or with possible cash flow issues
- Make it a monthly cash flow forecast for a grant or subscription based organisation or predictable cash flows e.g. renewable energy generating society

## What is a cash flow forecast?

- Looks at actual payments of money rather than what is owed to you or by you.
  - i.e. So when cash changes hands
- Time period can cover:
  - The following year
  - The length of a loan
  - The life of a project

## Why do we cash flow forecast?

- Cash is king
- “Cash” is ready money you can use to pay your obligations.
- Cash enables you to:
  - Meet your obligations
  - Buy stock
  - Invest in people and equipment
  - **Without cash you can not continue trading**

## Why do we cash flow forecast?

- You need to know whether at all points of the year, you have enough cash to cover your expenses
- A surplus at the end of the year doesn't help you pay your wages today



## Why do we cash flow forecast?

- Use it to plan scenarios
- What if:
  - There is a sudden slump in sales?
  - Essential equipment breaks?
  - You or your colleagues fall sick?
  - The business takes off and you don't have the resources to cope?

## Why do we cash flow forecast?

- To identify scenarios use risk management tools e.g. PESTLE Trend Analysis:
  - Political
  - Economic
  - Societal
  - Technological
  - Legal
  - Environmental

## Why do we cash flow forecast?

- Which should feed into the threats and opportunities of your SWOT analysis
  - Strengths
  - Weaknesses
  - Opportunities and
  - Threats

## SWOT Analysis Template

<p><b>Strengths</b></p> <p>What are your de facto strengths? What are your competitive strengths? What are your perceived versus real strengths? What other internal factors will help you?</p>	<p><b>Weaknesses</b></p> <p>What are your de facto weaknesses? What are your competitive weaknesses? What are your perceived versus real weaknesses? What other internal factors will hinder you?</p>
<p><b>Opportunities</b></p> <p>What current opportunities do you face? What future opportunities do you face? What opportunities do you face re. competitors? What other external factors will help you?</p>	<p><b>Threats</b></p> <p>What current threats do you face? What future threats do you face? What threats do you face re. competitors? What other external factors will help you?</p>

## Why do we cash flow forecast?

- The threats should then become the risks in a risk analysis
- Model the risks identified and look at the severity of the risk

If a risk is severe:

- How do mitigate against it?
- What is your plan B?

## Why do we cash flow forecast?

- Possible Immediate Covid-19 Threats:
  - No sales
  - Staff being ill or self isolating
  - Supply Chain issues
  - A sudden large increase in demand
  - A change in your business model reducing your margins

## Why do we cash flow forecast?

- Possible Later Covid-19 Threats:
  - Reduced sales
  - Less cash around and deflationary pressures on your pricing structure and therefore margins.
  - Supply Chain issues
  - Repayment of any bridging loans received during Lockdown
  - Interest Rate rises

## Why do we cash flow forecast?

- **How to plug the holes in your cash flow**

- Increase sales
- Increase margins
- Reduce wastage
- Decrease overheads
- Chase debtors / Delay payment to creditors
- Put off purchasing new equipment
- Loans – including bridging loans
- Overdraft
- Equity



## Why do we cash flow forecast?

- **How to plug the holes in your cash flow – Covid specific**
  - Government Grants – Small Business Grant Scheme - £10k & Retail, Hospitality and Leisure Grant Fund - £10 or 25k
  - Claiming Back Sick Pay
  - Decrease overheads - Business Rates Relief for Retail, Hospitality, Leisure and Early Years Education Sector
  - Decrease overheads – Furloughing workers and the Corona Virus Job Retention Scheme

## Why do we cash flow forecast?

- **How to plug the holes in your cash flow – Covid specific**
  - Defer VAT Payment due between 20/03 and 30/06
  - Defer PAYE and Corporation Tax (CT) through Time to Pay Scheme
  - Loans – Corona Business Interruption Loan Scheme
  - Switch to non sterling – Mutual credit, local alternative currencies. (Counter Cyclical)

## Types of cash flow forecast?

- Most cash flow forecasts will look like either:
  - A **direct** cash flow statement,
  - An **indirect** cash flow statement or
  - An amended P&L Forecast
- eg:

# Cash Flow Forecast

XXXXXXX Co-operative Limited

For the month ended 31 December 2017



Account	Dec 2017	Nov 2017	Oct 2017	Sep 2017	Aug 2017	Jul 2017	Jun 2017	May 2017	Apr 2017	Mar 2017	Feb 2017	Jan 2017
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## Operating Activities

Receipts from customers	63,219.57	90,168.28	72,891.94	91,594.28	47,181.76	84,856.97	75,985.50	71,296.55	59,917.09	88,249.94	42,569.91	64,895.87
Payments to suppliers and employees	(42,891.93)	(53,821.76)	(54,279.51)	(53,570.99)	(44,019.94)	(60,799.48)	(46,335.00)	(42,865.67)	(54,061.72)	(70,171.72)	(44,851.99)	(43,088.73)
Cash receipts from other operating activities	0.00	(5.90)	(3,952.54)	(166.67)	(3.29)	(13,817.47)	0.00	(16.42)	(4,458.07)	(3,286.86)	(669.13)	(8,296.57)
Cash payments from other operating activities	(327.35)	(647.11)	(511.11)	(2,038.68)	(195.01)	(2,279.90)	(670.89)	(1,391.33)	(2,480.36)	(2,173.85)	(507.72)	(2,617.64)
<b>Net Cash Flows from Operating Activities</b>	<b>20,000.29</b>	<b>36,693.51</b>	<b>14,148.78</b>	<b>35,817.94</b>	<b>2,963.52</b>	<b>7,960.12</b>	<b>28,979.61</b>	<b>27,023.13</b>	<b>(1,083.06)</b>	<b>12,617.51</b>	<b>(3,458.93)</b>	<b>10,892.93</b>

## Investing Activities

Proceeds from sale of property, plant and equipment	312.40	196.62	187.27	136.77	153.22	898.01	141.24	223.35	141.24	571.08	157.90	107.91
Payment for property, plant and equipment	(156.20)	(40.42)	(302.44)	(833.33)	(16.45)	(783.50)	0.00	(82.11)	0.00	(2,000.00)	(59.99)	0.00
Other cash items from investing activities	945.00	3,444.97	2,818.07	240.01	(5,668.93)	235.47	390.76	(1,854.81)	25,257.45	(24,942.90)	61.08	(221.98)
<b>Net Cash Flows from Investing Activities</b>	<b>1,101.20</b>	<b>3,601.17</b>	<b>2,702.90</b>	<b>(456.55)</b>	<b>(5,532.16)</b>	<b>349.98</b>	<b>532.00</b>	<b>(1,713.57)</b>	<b>25,398.69</b>	<b>(26,371.82)</b>	<b>158.99</b>	<b>(114.07)</b>

## Financing Activities

Other cash items from financing activities	(707.52)	(27,471.39)	3,474.63	3,532.62	2,725.37	7,898.57	6,348.36	4,697.80	(27,514.08)	17,591.26	106.80	264.92
<b>Net Cash Flows from Financing Activities</b>	<b>(707.52)</b>	<b>(27,471.39)</b>	<b>3,474.63</b>	<b>3,532.62</b>	<b>2,725.37</b>	<b>7,898.57</b>	<b>6,348.36</b>	<b>4,697.80</b>	<b>(27,514.08)</b>	<b>17,591.26</b>	<b>106.80</b>	<b>264.92</b>

<b>Net Cash Flows</b>	<b>20,393.97</b>	<b>11,823.29</b>	<b>20,326.31</b>	<b>38,894.01</b>	<b>156.73</b>	<b>16,208.67</b>	<b>35,859.97</b>	<b>30,007.36</b>	<b>(3,198.45)</b>	<b>3,836.95</b>	<b>(3,193.14)</b>	<b>11,043.78</b>
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## Cash and Cash Equivalents

Cash and cash equivalents at beginning of period	339,622.14	327,798.85	307,472.54	268,578.53	268,421.80	252,213.13	216,353.16	186,345.80	189,544.25	185,707.30	188,900.44	177,856.66
Cash and cash equivalents at end of period	360,016.11	339,622.14	327,798.85	307,472.54	268,578.53	268,421.80	252,213.13	216,353.16	186,345.80	189,544.25	185,707.30	188,900.44
<b>Net change in cash for period</b>	<b>20,393.97</b>	<b>11,823.29</b>	<b>20,326.31</b>	<b>38,894.01</b>	<b>156.73</b>	<b>16,208.67</b>	<b>35,859.97</b>	<b>30,007.36</b>	<b>(3,198.45)</b>	<b>3,836.95</b>	<b>(3,193.14)</b>	<b>11,043.78</b>



18-19

19-20

20-21

21-22

22-23

**Operating Cash Flows**

	18-19	19-20	20-21	21-22	22-23
Operating Profit	33,219	50,568	76,189	93,876	120,221
Altered for non cash items					
Depreciation	1,800	1,298	0	0	0
Changes in Stock Shop	(8,593)	0	0	0	0
Changes in Stock Weaving	(850)	(1,780)	(204)	0	0
Trade debtors		(6,922)			
Trade creditors		(12,131)			
Accruals		(6,114)			
Corporation Tax (CT)		(644)	(3,114)	(2,238)	(2,375)
Less contribution to Mill	(30,000)	(35,000)	(65,000)	(82,000)	(110,000)
Plus Net VAT Cash flows	3,099	1,399	2,196	1,911	3,005
<b>Net Operating Cash Flows</b>	<b>(1,325)</b>	<b>(9,326)</b>	<b>10,068</b>	<b>11,549</b>	<b>10,851</b>

<b>Investment Cash Flows</b>					
Purchases					
Disposals					
<b>Net Investment Cash Flows</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing Cash Flows</b>					
Loans from Mill	20,000	0	0	0	0
Loans from Mill Repaid	0	5,000	5,000	5,000	5,000
Loans from XXXX Repaid	0	5,000			
<b>Net Financing Cash Flows</b>	<b>20,000</b>	<b>(10,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(5,000)</b>
<b>Net Changes in Cash Flow</b>	<b>18,675</b>	<b>(19,326)</b>	<b>5,068</b>	<b>6,549</b>	<b>5,851</b>
Opening Cash Balance	3,334	22,009	2,684	7,752	14,301
<b>Closing Cash Balance</b>	<b>22,009</b>	<b>2,684</b>	<b>7,752</b>	<b>14,301</b>	<b>20,152</b>

## How to create a cash flow forecast

- First create a Profit & Loss (P&L) Forecast
- Method 1)
  - Generate a P&L report by month or week using Last Year's Data
  - Estimate Predicted Sales Growth by looking at historic Sales Growth and following the trend
  - Increase Sales and Cost of Sales by Predicted Sales Growth
  - Increase overheads by inflation

## How to create a cash flow forecast

### How to Calculate Sales Growth

$$\frac{(\text{This Year's Sales} - \text{Last Year's Sales})}{\text{Last Year's Sales}} \times 100$$



## How to create a cash flow forecast

- Method 2)
  - Estimate Sales using your marketing objectives
  - Use your mark up to generate your Cost of Sales
  - List all your Overheads.

## How to create a cash flow forecast.

- Convert your P&L Forecast into your Operating Cash Flows:
  - Adjust your Net Profit for non-cash expenses e.g. depreciation
  - Adjust it for changes in Accounts Receivable (Sales) or A/R & Accounts Payable (Bills) or A/P
  - Adjust it for changes in stock level
  - Adjust it for VAT

## **How to create a cash flow forecast.**

- Add Investing Cash Flows
- Add Financing Cash Flows
- Sum Total Cash Flows
- Add Opening Balance
- Add Closing Balance

## How to create a cash flow forecast.

- Changes in A/R and A/P
  - To calculate changes in A/R & A/P you **need to know the average days before your invoices are paid or you pay your bills.**
  - Called Days Sales Outstanding (DSO) or Days Bills Outstanding (DBO)
  - $DSO = A/R / \text{Sales per Day}$
  - $\therefore A/R = DSO \times \text{Sales Per Day}$
  - $\therefore A/R = DSO \times \text{Monthly Sales} / \text{Days in month}$
  - To get changes in A/R use Last Month's A/R – This Month's A/R
  - To get changes in A/P use This Month's A/P – Last Month's A/P

## How to create a cash flow forecast.

- To look at changes in stock:
  - Use Last Month's Stock – This month's Stock
- To look at changes in VAT, easiest way is to:
  - Add a line for VAT received on sales each month
  - Add a line for VAT paid on purchases each month
  - Calculate the VAT owed or reclaimed to HMRC in the month following each quarter.

## Altering your Cash Flow Forecast due to Covid

**I suggest you do at least two forecasts:**

1. An **immediate** short term forecast that is focused on the lockdown period. This is purely cash flow focused and looks at:
  - Will you run out of cash?
  - When will you run out of cash?
  - How long can the lockdown continue before you run out of cash?
  - And how much do you need to borrow to survive this period?

## Altering your Cash Flow Forecast due to Covid

2. Also a **longer term forecast** that looks at the effect of a likely recession on your business. This should be both a P&L and a Cash Flow forecast.

Use the scenarios from the risk analysis you do

If you can't predict scenarios then look at what happens if your turnover is cut by:

- 25%
- 50%
- 75%

## Altering your Cash Flow Forecast due to Covid

In the longer term forecast, you will look at:

- Will your business still be profitable after this?
- Can you afford the interest payments on your Covid Loan?

**If your business won't be profitable in the long term forecast then you really need to consider if you can afford to borrow money now**



## Altering your Cash Flow Forecast due to Covid

- The changes to the short term forecast should include:
  - A removal/ reduction or increase in turnover and similar changes to your cost of sales
  - Any reductions in overheads based on your office/ shop being closed, or rates relief you may receive
  - Any income you may receive from any of the government schemes mentioned earlier
  - Delayed VAT payments
  - Potentially, if you need it delayed, CT and PAYE payments
  - Remove any unnecessary or delay-able expenditure, capital investments etc.

## Altering your Cash Flow Forecast due to Covid

The short fall you may need to borrow is based on your largest negative figure x a contingency (I often use 10% contingency).

Let's look at it in the spreadsheets...

## Cash flow and business re-forecasting



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