

Preparing a Cash Flow

Projecting the cash flow for your business is very similar to planning your own personal budget. It projects the flow of money coming into your business and the money being paid out of your business to determine if your bank account will be in a plus or minus position at the end of each month. As a result, you can decide if you will need to borrow money or allocate surplus funds.

The basic formula for completing a cash flow is as follows:

Cash receipts – Cash payments = Cash balance.

You will have accumulated the majority of this information through market research and calculating how much it would cost you to start up a business.

Steps to completing a cash flow

- 1) Fill in the months at the top of a cash flow. Your first month should be the month when you begin to spend most of your start up funds
- 2) Record the money you will receive from sales for each particular month. Only record sales when you will actually receive the money. (e.g. if you will be extending credit to customers). Include any loan proceeds received.
- 3) Record the monthly expenses that you will be paying out each month to run your business. These may be included: lease or mortgage payments, insurance, advertising, transportation, wages, bank fees, utilities, licenses, and repairs and maintenance. Try to be thorough, but rounding off the expenses to the nearest ten dollars is okay.
- 4) Using the formula mentioned above, you will calculate both your cash balance for the month and your running total cash balance for the year. Your running total indicates how much money you have left in the bank at month's end. It is calculated by adding the money balance to the running total balance from the month before. Don't panic if you are in the "red" as most businesses initially operate at a deficit. But remember, you are getting into business to make money.

Tips:

- Use pencil, because you will most likely be making many changes before you are finished.
- Check your math. Your credibility with a lender will be tarnished by addition and subtraction mistakes.
- Start with three months of expenses to see if you are getting the hang of it and work from there.

For More Information:

Internet: <http://www.onlinewbc.gov/docs/finance/cashflow.html>