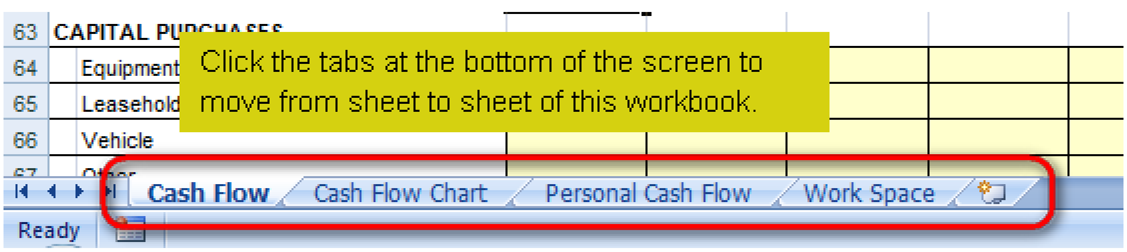
# How to Use the Cash Flow Template

When you fill in your cash flow you are trying to predict the timing of cash in and out of your bank account. to show the affect and timing for each transaction when it is actually measured as cash. And remember, if you need any assistance to complete this worksheet Community Futures staff will be happy to assist you.
A cash flow forecast enables a business to project future cash income (receipts) and cash expenditure (payments) over a period of time. The forecast can then be used as a management decision making tool that allows you to identify:

- How much initial cash investment a start-up business requires
- When other finance, such as an overdraft or loan may be needed
- What level of loan repayment you can afford
- When your business will be able to spend cash in the future, such as taking on a new employee, paying for a marketing campaign, or the purchase of capital equipment
- How much your business will be able to pay you
- When cash flow problems may occur once your business is in operation, or as it grows

The Cash Flow looks at the business with monthly revenue and expenses over a one year period. If you are applying for a loan, the cash flow should cover the time required to repay your loan. This template is set-up for three years, although it can be used for different lengths of time.

This cash flow template includes 4 separate worksheets, with the tabs at the bottom of the screen used to move from sheet to sheet.

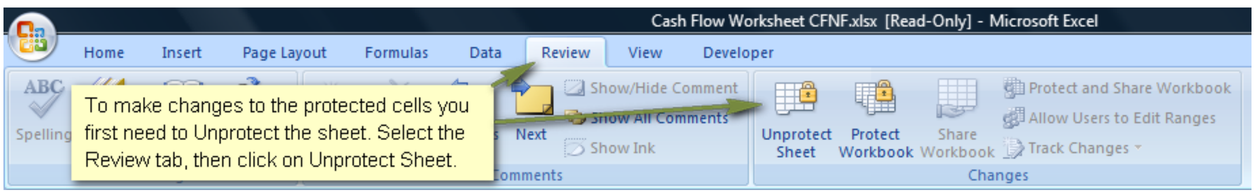



- The first tab is *Cash Flow*, for many businesses this is the only sheet they will need to use.
- The second tab is the *Cash Flow Chart*. This is a graphic representation of your cash flow projections. This graphic is generated automatically from the numbers you enter in the *Cash Flow* worksheet and is a good visual presentation of your cash requirements. You do not enter any data on this sheet.
- The third sheet is *Personal Cash Flow*. This is an optional sheet, but it is very useful to understand household revenue and expenses to calculate the wage or owners draw required from the business. This sheet is for your personal use and is not linked to any of the other worksheets.
- The fourth sheet is *Work Space*. This is a blank sheet but is a location where you can work out the relationship between your revenue line in the Cash Flow and the operation of your business. The information you include on this sheet will depend on the nature of

your business, and you can talk with your CF advisor about the breakdown that might be useful for your business. Some examples are:

- The number of people who need to buy from you every day and the average dollars spent by each customer
- The revenue from each product or service unit you sell, and the cost of goods sold for each product or service unit
- The number of square feet in your location and the monthly revenue you will generate per square foot. Different businesses may use measurements other than square feet, such as if the business is a restaurant, you might use seats instead of square feet, and then consider the number of customers required per day and the number of seats. You could then use this to calculate the number of times each seat is used during the meal hours
- The time required per product or service unit, or the time required per customer, then compare this to the number of people who need to buy from you each day to calculate the utilization of your time

Each of the worksheets is *Write Protected*, so you can only fill in the cells with a light yellow background. If you want to make changes to the spreadsheet you can remove the *Protection* by selecting the *Review* tab on the top menu and clicking on the *Unprotect* button. The worksheet is not password protected.

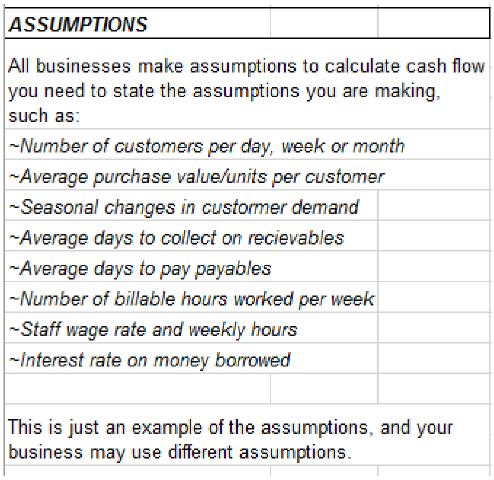



## Cash Flow Worksheet

This worksheet is used by all businesses, and identifies the financial needs of your business.

### *Assumptions*

The Assumptions section on the Cash Flow worksheet are for you to think about how your business makes money. How many items or units do you have to sell haw many people need to come in to your business and make a purchase, what percent of the population in your market need to be your customers. There are many assumptions you are making when you state a business, it is important that you understand what these assumptions are, and that they are reasonable. The assumptions section can be linked to other parts of the worksheet, so you can test out different assumptions. Community Futures can help you with this.



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|---|
| ***ASSUMPTIONS*** |
| All businesses make assumptions to calculate cash flow you need to state the assumptions you are making, such as: |
| *~Number of customers per day, week or month* |
| *~Average purchase value/units per customer* |
| *~Seasonal changes in custormer demand* |
| *~Average days to collect on recievables* |
| *~Average days to pay payables* |
| *~Number of billable hours worked per week* |
| *~Staff wage rate and weekly hours* |
| *~Interest rate on money borrowed* |
| |
| This is just an example of the assumptions, and your business may use different assumptions. |

## Cash In

### *Sales*

The top section of the *Cash Flow Worksheet* is *Sales*, there are rows for ‘Products’, ‘Services’, divided into ‘Cash Sales’ and ‘Account Sales’ and a row for ‘Other’. Only complete the rows that make sense for your business. You can change any of the labels on the rows, and add or delete rows if required.

If all your sales are similar, than you can list them as one lump sum, but if you have more than one type of product or service and there is something distinct about each of them, you can list each on a separate line. The amount to include in this area is the gross sales amount. When including Account Sales the amount is entered in the month when you receive cash, not the month of the sale.

### *Cash Contribution*

If you are adding personal money to the business in any period it is recorded on this line. This is usually for a start-up business, or if you are contributing additional money at the start of the cash flow period. If the business is an ongoing venture, with cash already in the business, this can be reported at the bottom of the *Cash Flow* sheet, in the *Opening Cash Balance* row in the *Start Up* month column.

## Cash Out

### *Inventory Purchases*

In the *Inventory Purchases* section include the cost of any goods or products you sell, also include any costs directly related to these products, such as shipping or brokerage fees. You can change any of the labels on the rows, and add additional rows if required. For most businesses there is a start up inventory level, and the business needs to keep this amount of inventory on hand at all times. The cost of this inventory requires working capital that stays in the business.

### *General Expenses*

The *General Expenses* are all the things you will spend money on to operate your business. The list of expense items included in this section is fairly exhaustive, but you can add or delete rows or change the label on any of the rows if required. This section also includes a row for Owner’s Draw, where you can show any money you take out of the company.

For any payment don’t spread the cost evenly over the year unless the payments actually occur evenly over the year. For example, if insurance costs $1,200 per year and is payable in May, put the whole $1,200 in May, and not $100 in each month.

### *Capital Purchases*

These are the type of items that would go on the Balance Sheet of a business and then be depreciated over a number of years. For calculating income tax, and on an Income Statement and this is how you account for capital purchases. But a *Cash Flow* is used to measure the use of cash, so you show the total cost of the item in the month when it is purchased. You can change any of the labels on the rows, and add additional rows if required.

### *Debt Payment*

If you are applying for a loan show the monthly payments in this section. You also need to include payments for any other loan you might currently have. Your Business Advisor can tell you the repayment amount to include for a Community Futures loan.

## Other Considerations

### *Tax*

Taxes will definitely impact your cash flow, but for most businesses it is easier to complete the cash flow without including sales type taxes. If your revenues do not include GST or PST, and your expenses do not include GST or PST, then the taxes can be accounted for separately. For most businesses, particularly at start-up, this is an acceptable approach for Cash Flow projections. You must be aware, however, that taxes do need to be paid, and your accounting system needs to track taxes owed, so when you need to make your tax remittance you have the cash on hand.

Income tax may also be left off your cash flow statement, with the assumption that the business will operate to have no taxable profit in the business at the end of the year (any taxable profit is income for the owner). But even if the business is not accounting for taxes you need to make sure you are accounting for personal income taxes that will need to be paid. You will need to accumulate an appropriate cash surplus either in your business or personal bank account.

Other taxes should be included in your Cash Flow, such as property tax if you own the building or land, and pay roll taxes that will need to be paid for your employees.

### *Use 'What if' scenarios*

Looking at different scenarios can be very useful. You can do this by varying your sales and expenses to see the effect on your cash flow. If your sales were to drop by 10% or 20% but your expenses were to stay the same you would need to know what impact this could have on the business. We recommend considering different scenarios and possibly saving three versions of your Cash Flow; Best Case, Probable Case, and Worst Case.

## Cash Flow vs. Income Statement

A cash flow and an income statement are similar, but there are a few critical differences. On an income statement depreciation of capital items, such as a vehicle, computer, or other long term asset would be subtracted from income. An income statement would also separate loan payments into interest and principle, and include only the interest portion of the payment as an expense. The timing of when a transaction is reported is also different. An Income Statement reports a transaction when the item is purchased, or when the sale occurs and doesn't consider the timing of when a payment is made or received. A Cash Flow is only interested in when cash is either paid or received. For some businesses it can be useful to also create an income statement, but for most small businesses this is not necessary.

## Working Capital Example

If you buy a product for $200, then sell it for $500 on 30 day terms, the gross profit is $300, but before the $500 is collected there is $50 commission paid to the sales person, and the need to replace the inventory at $200. In this simple example the business would need $450 in working capital ($200 for the original item sold, $200 to replace the inventory and $50 for the commission).