



Forecast Your Financing Needs With A Cash Flow Projection

Every business owner should know how to create a Cash Flow Projection as it helps determine when and how much a business may need to borrow in order to pay its bills.

A Cash Flow Projection is similar to a Profit and Loss Statement which is a basic record of income and expenses that determines whether a business experiences a profit or loss for a certain time period. Unlike a Profit and Loss Statement, a Cash Flow Projection records actual cash receipts and expenditures, which may be different than income and expenses due to accounts receivable, inventory levels, accounts payable or other accrued expenses. Using the sample Cash Flow Projection spreadsheet as a guide, you can create your own Cash Flow Projection.

Step 1: Sales Assumptions

Before creating a Cash Flow Projection, you must make certain basic assumptions:

- **Sales:** How much, in dollars, are the projected sales going to be for the next 12 months? Sales will be the key driver in developing cash income and cash expenses.
- **Percentage of Cash Sales:** What percentage of monthly sales is expected to be in the form of cash, check or credit card, versus selling on terms (which becomes accounts receivable to be collected over time)?
- **Percentage of Sales sold on time:** What percentage of the receivables will be collected over various time periods? Typically you will estimate the percentage of receivables collected within 30 days of billing, 60 days of billing, and over 60 days of billing. These percentages will assist in determining the actual cash that is being collected each month.

These assumptions are the first items to be input into the Twelve-Month Cash Flow worksheet in the Essential Operating Data section.

Step 2: Expenditures

Next you can input the remainder of the cash receipts and expenditures following these helpful guidelines:

- **Cash Receipts:** There is an additional row in which miscellaneous cash receipts may be entered. These could include future loan proceeds, additional capital being provided by the owner(s), cash from the sale of excess assets not needed by the business, etc.
- **Cash Paid Out:** These are the estimated cash payments (checks written and mailed) for the various items listed. Keep in mind:
 - Some items such as insurance may be paid only once or twice during the year. Try to estimate in which month(s) the payments are made and enter the appropriate amount into those months.

- Purchases are the actual payment for the products. Thus, like receivables, if your product is purchased on time and then paid when your vendor sends an invoice, try to estimate when the invoice is being paid and not when the product is actually acquired.
- For Loan Payment, include the principal and interest. You may want to have separate lines for each loan if there is more than one, such as a term loan and a line of credit.
- Owners' Withdrawal – estimate the amount of funds needed each month to support the owners' personal lifestyle and debt obligations.

What is the Cash Flow Projection telling me?

There is a great deal of information you can get from a Cash Flow Projection:

- Start by reviewing the Cash Position (end of month) line. Any negative amounts indicate a cash flow problem that may require an additional cash injection from the owner or possibly an additional loan.
- If the Cash Position is constantly negative, but declining, a term loan may solve the cash flow problem. If the months alternate between positive and negative amounts, then perhaps a line of credit is appropriate.
- By changing your initial assumptions you can easily see the effect on your Cash Position. This is an excellent tool for contingency planning.
- Once a Cash Flow Projection is created, you can easily track your performance and update your projections on a monthly basis to estimate any significant changes in the future projected Cash Position. This will allow you to focus on what changes might be necessary to get back on track with the original projection or identify new borrowing needs.
- Once you become comfortable with the process, you can create a rolling 12-month projection that you update at the end of each month. With just a few minutes and some simple keystrokes, you will continually have an idea of what is going to happen over the next 12 months. This will allow you to always be prepared for cash flow issues.

The key to any projection is the assumptions made at the start. You should always review the actual results as they relate to your initial assumptions, and understand that over time, your initial assumptions will need to be modified. Then you'll be well prepared to identify – and avoid – potential future cash flow issues.

Have questions? Need additional help? Please don't hesitate to contact your local branch to determine if a loan or line of credit is right for your business.

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