East Riding Voluntary Action Services (ERVAS) Limited

Community Accountancy Service

Delivering quality accounting services and training to the voluntary sector

Good Practice Guide:

22 – Cash Flow Forecasts: A Simple Guide

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What is a cashflow forecast?

A cashflow forecast looks at the future and predicts how money will come in to and go out of your organisation.

Isn’t that the same as a budget?

No. A budget plans which sources of income and costs will fall in to which period. Often money does not change hands at exactly the same time as a piece of work is done. A cashflow forecast will map when the money *actually* changes hands.

Why is it important?

Your budget may show that your project is viable (planned income is more than or equal to expenditure). But, for example, if you receive a grant late you may not be able to pay your employees. This could lead to a very early end to your project.

Looking at the timing of money going in and out is therefore essential.

How do I start?

Cashflows can cover any period of time but are usually done on a monthly, or quarterly basis.

Step 1: Set up a table (see example below)

If you have already done a budget you can use the headings for your income and expenditure.

		APRIL	MAY	JUNE	JULY	AUG	SEPT	
INCOME		10,000						
Grants					10,000			
Bank Interest				100			100	
Fees			2,000			750		
	A	10,000	2,000	100	10,000	750	100	
EXPENDITURE								
Wages/Tax		3,200	3,200	3,000	3,000	3,000	3,000	
Rent		500	500	500	500	500	500	
Electricity			175			200		
Insurance				1,000				
Subscriptions			60					
Accountancy				250				
	B	3,700	3,925	4,750	3,500	3,700	3,500	
Total Inflow (Outflow)	C	6,300	(1,925)	(4,650	6,500	(2,950)	3,400	A-B
Bank Balance b/fwd	D	500	6,800	4,875	225	6,725	3,775	
Bal c/fwd to next month		6,800	4,875	225	6,725	3,775	375	C+D

Steps 2 and 3 explain the rationale behind entering the figures above.

Step 2: Income. Work out when the money is likely to come in. Enter it in the table.
In our example the grant comes in each quarter starting in April.

Step 3: Work out when you will have to pay the bills. Enter it in the table. For example you may have to pay the rent each month, but the electricity bill comes in once a quarter. In our example the insurance premium is paid in one go, you may pay yours each month.

Step 4: Add up your table following the simple guide letters.

Step 5: Look to see if the balance at the bottom (" balance c/fwd") is positive. If the number is close to zero you will have to keep a close eye on the monies going in and out. If the number is a negative amount you will have to plan how you are going to pay the bills, e.g. arrange to pay later, arrange an overdraft facility with the bank or chase up any money owing to you.

For further information please contact:

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