



Manage cash flow in your business

Being able to predict and control money going in and out of your business at different times and its impact on your business is critical to assessing the financial health of your business. It can make the difference between a business that survives and one that fails.

This involves:

1. setting cash flow targets in line with the financial plans of your business
2. producing cash flow forecasts on a monthly basis
3. identifying any gaps between income and expenditure and taking steps to control any shortfall that is likely to occur

What you need to do

- work out what costs are involved in your business
- work out when, during each accounting period, different types of costs need to be paid
- calculate when cash will flow into and out of your business during each accounting period
- work out what money is available at any one time
- check the effect that the timing of payments (both inwards and outwards) may have on cash flow
- set cash flow targets that are in line with your financial plans for your business
- identify where cash comes from and monitor how it is used in your business
- control sources and use of cash where appropriate
- produce cash flow forecasts at set times that are suitable for your business
- accurately forecast any cash shortfalls and plan the actions that need to be taken to address them

What you need to know and understand

Cash flow

- what are the methods to use to forecast business income and spending
- how to find out what funds will be spent when starting and/or running a business



- what are the requirements for forecasting cash flow
- how to prepare and make sense of basic cash flow statements and forecast possible high and low cash flow rates (basic sensitivity analysis)
- how to monitor cash flow. (For example by keeping day to day records and making sense of bank statements.)
- how to choose the most useful timescales for financial forecasts. (For example every month, three months or a year.)
- how to control sources and uses of cash. (For example by moving cash between accounts, buying and selling stock, keeping the numbers of creditors and bad debtors to a minimum, managing payment to creditors, paying tax, buying and selling assets, and short-term sales and pricing policies.)
- how the timing of cash receipts and spending affects cash flow
- how not meeting agreed targets can affect cash flow. (For example, not meeting agreed delivery times, not following laws or regulations, terms of payment, penalties for non-completion or breach of contract and damages for non-acceptance of goods.)

Information and advice

- who can provide financial advice on a business. (For example accountants, lawyers, advice centres, banks and other financial providers). Advisers may be tied to a particular company

