



## Southampton Voluntary Services Community Accountancy Project

### Cash Flow Forecasts

A cash flow forecast helps to ensure that there is enough cash in the bank to pay bills as they become due. Cash flow problems can lead to some serious implications, especially if it means that staff cannot be paid on time.

Even if the budget shows a break-even position over the year, the timing of cash flows may not coincide in practice. The use of a cash flow forecast can help to manage this.

If an organisation is short of money the forecast will help make sure that they don't run out. If money is held in reserves it can help maximise bank interest, by knowing how much can be put into a savings accounts and when. It will be especially important if the timing of income and expenditure are variable, for example, with irregular grant payments.

If expenditure is likely to have to be made before the corresponding income is received, some reserves will be needed in general unrestricted funds. The largest negative figure on the cash flow forecast for any month will determine how much money may be needed available.

#### **Producing a Cash Flow Forecast**

The forecast will usually be presented in the form of a table

Budgeted income and expenditure needs to be spread over the period, predicting as accurately as possible in which month they will occur. Any non-cash items, such as depreciation should be ignored.

Start by deciding on the income and expenditure headings that are required and enter them on the forecast. Budget headings can be used for this.

Estimate what the total bank and cash balances will be at the beginning of the year. Then for the first month enter the receipts that are expected and then the payments. Receipts minus payments will give the net cash flow for the month.

The opening balance plus the receipts, minus the payments will give the expected total bank and cash balance at the end of the month. This is then the opening balance at the start of the next month. A negative balance will mean that you are forecasting an overdrawn balance.

Over the year replace the estimated figures with actual figures, so that the projections for later months become more accurate. Date each version of the cash flow forecast so that you know which is the most recent.

## Using the Cash Flow Forecast

The forecast should be used to give advance warning of any action that needs to be taken, in the hope that any problems can be avoided.

If an overdrawn balance is predicted in any month action will be needed as soon as possible. Otherwise immediate expenses may not be met, which could result in the organisation becoming insolvent.

This may mean delaying some spending plans, having a short-term overdraft, or carrying out some additional fundraising.

*See also the information sheet on budgets*

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For further information, or if you require this information in another format, contact:

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