



A Simple Cash Flow Projection

Ten Questions to Help Your Projections

Why are cash flow projections so difficult to make?

We are considering a variety of numbers. If you have history, those numbers are easier to come by than if you are starting-up. Let's consider a business that just sells one product, a machine. They have no employees and the owner only gets paid when there is plenty of money in the bank. We want to know how much cash he needs to have in the bank on the first of the month in order to pay all his bills that month and have something left for himself. What are all these numbers we need to know in order to make that projection?

1. What does he sell his machines for? \$2,225 each.
2. What are the up-front material costs for each machine? \$1,200.
3. What are the fixed business expenses for the month?
 - Rent \$900, Insurance \$200, Utilities \$300, Advertising \$200, Supplies \$100, Travel \$50, Phones \$150, and Professional Fees \$100=Total \$2,000.
4. How many machines does he project he will make and sell this month, his first in business?
One per week for five weeks.
5. How much are the material costs paid out during the month?
5 machines started x \$1,200=\$6,000.
6. The owner collects a \$500 up-front deposit for the machines with the balance due in 30 days.
How much will be collected in machine sales this month? 5 weeks x \$500 deposit for each machine =\$2,500.
7. What is the earned sales revenue for the first month? \$2,225 x 5=\$11,125.
8. What are the expense totals? COGS (materials) \$6,000 + fixed expenses of \$2,000 = \$8,000.

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9. Assuming an accrual accounting system, will the business be profitable for the month? Sales of \$11,125 minus expenses of \$8,000=\$3,125. Yes, a good profit. But profit does not equate to cash.
10. How much cash will the owner need to have in the bank to get through the first month? Cash collected \$2,500 minus expenses paid out \$8,000 = \$(5,500.) The owner will need close to \$5,500 in additional cash to start the month and more if he or she expects to be paid.
11. Since your business is much more complicated than this example and your banker may want a three-year cash flow forecast, we are using a spreadsheet template to help our clients create these valuable forecasts. Good decision making requires good forecasts. Register for consulting to set up an appointment and we will show you how: IdahoSBDC.org

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