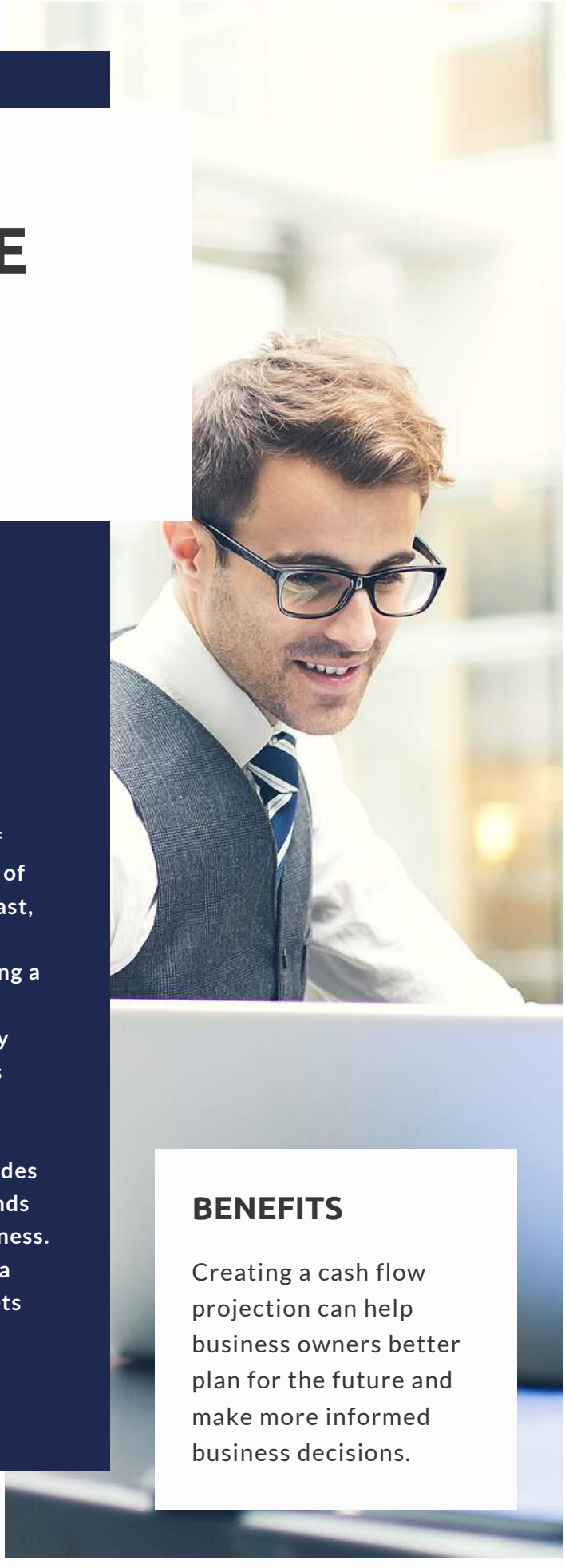
GMH FINANCE

HOW TO CREATE A CASH FLOW PROJECTION



What is a Cash Flow Projection?

Shifting trends in the industry

A cash flow projection estimates the amount of cash that you expect to come into and flow out of your business. Also known as a cash flow forecast, a cash flow projection can be created for any period, with some small businesses even creating a weekly cash flow projection. Twelve-month projections are also fairly common, though they will need to be adjusted throughout the year as revenues and expenses change.

A properly prepared cash flow projection provides business owners with a view of all expected funds that will be coming in and going out of the business. Knowing your projected cash flow can provide a solid basis for making business decisions and lets you know if a potential cash shortfall is on the horizon.

BENEFITS

Creating a cash flow projection can help business owners better plan for the future and make more informed business decisions.

How To Create A Cash Flow Projection

Creating a cash flow projection is very simple; a projection for the upcoming month can be completed in less than an hour, though quarterly or yearly projections can take a little longer.

1. Bring your ending cash total forward

If you're creating a cash flow projection for the first time, you'll want to use your reconciled cash balance. If you've already created a cash flow projection for the previous month, your beginning balance for the upcoming month will be the ending cash balance from the previous month.
For example, after you reconcile your bank statement, your ending cash balance is $2,000. That will be placed at the top of the cash flow projection.



Use cash flow assumptions, which are the total incoming and outgoing cash transactions you assume will occur, and follow the steps detailed below.

2. ESTIMATE SALES

Next, you'll want to estimate sales that you expect to be paid in the upcoming month. For example, if you have $10,000 in invoices due the following month, and you expect 80% of those invoices will be paid, you'll put $8,000 in income for sales paid.

3. ESTIMATE OTHER REVENUE

If your only revenue source is sales, you can move to the next step. But if you have other sources of revenue, such as rental income or interest income, you can place it below the sales revenue. For example, if you currently rent office space that brings in $1,000, you'll place that amount under rental income, making your total incoming cash for the following month $9,000.

4. ESTIMATE REGULAR EXPENSES

The next step is to estimate your regular expenses for the month. Be sure to include all of your regular expenses. In this example, your monthly expenses would include rent of $1,100, utilities that average $250 a month, a part-time employee, whose salary is $2,000 monthly, and insurance of $150 a month.



5. ESTIMATE SEASONAL OR ONE-TIME EXPENSES

If you have a one-time expense upcoming, you can include it in a separate line item. Just be sure not to include that expense each month. For example, you have a subscription to a professional newsletter that you pay $90 for quarterly. You would only include that expense in the months when it's paid.

6. SUBTRACT EXPENSES FROM INCOME

After all cash in and cash out has been estimated, you can subtract your total expenses from your total income to see your cash flow for the month. This number is important since it displays whether you had more incoming cash than expenses.

7. ADD BEGINNING BALANCE TO ESTIMATED CASH FLOW

Once you have your total cash flow for the month, you can add your beginning balance to your current cash flow to arrive at your ending cash balance for the month. This is the balance that you'll use as your beginning cash balance for the following month.



WANT TO SEE A CASH FLOW PROJECTION EXAMPLE?

CLICK HERE TO SCHEDULE A FREE STRATEGY SESSION

