

**Take
Action
Series**

How To Prepare A Cash Budget

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Overview

A well laid out cash budget is an essential business management tool. The objective of this manual is to gain a better understanding of how to prepare a cash budget by estimating the timing of cash inflows and outflows. Cash is the bloodline of any business and being able to monitor the timing and pace of cash on a regular basis is critical to growing a successful business. As stated in our other manual, “Analyzing Cash,” cash repays debt; it keeps your doors open and along with profit it increases the value of your business. Every business owner needs to have a solid understanding of how cash flows through his/her business.

CASH! IT IS THE MOST IMPORTANT ASSET IN ANY BUSINESS! Whether you’re examining our; Take Action Series on Cash Budgeting, Stress Testing Cash, or Analyzing Cash Flow; you will discover cash is “IT.” It is the center of the business universe; the asset which all others revolve around. Cash is any business’ most precious resource. Having said all that; tracking, monitoring and controlling cash on a monthly basis, is often ignored and presents a challenge in most businesses.

In order to understand cash budgeting, you need to develop a complete understanding of how cash flows through a business during normal operations. The diagram on the next page illustrates a four-month snapshot of a twelve-month budget.





If you follow the diagram you will witness; first, ① a business has an estimated beginning cash balance every month. Initially, it starts with the beginning cash balance which typically is the cash balance for the end of the year. Subsequent beginning cash balances represent the ending cash balance from the previous month.

Second, ② monthly cash inflows are entered based on the timing of cash receipts from normal selling activities plus the collection of accounts receivable from credit sales and any cash generated from extraordinary items like the one-time sale of a business owned asset. All are entered when you expect to receive the cash.

Line items ① and ② are then added to estimate the ③ business’ cash available to spend each month. This represents an estimation of how much cash the business has available to spend toward paying its monthly operating expenses and any planned expenditures.

The next step in the process is to estimate the business’ monthly cash outflows. They include normal monthly operating expenses plus any extraordinary items like the purchase of a business vehicle; 4 cash outflows. You need to map out when the business expects to spend the cash.

Once you’ve recorded the business’ monthly inflows and outflows, you can calculate an estimate of the business’ 5 monthly ending cash balance. The question becomes, “is this enough?” Many businesses plan for a minimum level of cash on hand (a minimum required cash balance).

| | MONTH 1 | MONTH 2 | MONTH 3 | MONTH 4 |
|----|--|--|---|--|
| 1. | Beginning Cash | Beginning Cash | Beginning Cash | Beginning Cash |
| | + | + | + | + |
| 2. | Cash Inflows | Cash Inflows | Cash Inflows | Cash Inflows |
| | = | = | = | = |
| 3. | Cash Available | Cash Available | Cash Available | Cash Available |
| | - | - | - | - |
| 4. | Cash Outflows | Cash Outflows | Cash Outflows | Cash Outflows |
| | = | = | = | = |
| 5. | Cash Surplus (Cash Deficit) | Cash Surplus (Cash Deficit) | Cash Surplus (Cash Deficit) | Cash Surplus (Cash Deficit) |
| 6. |  |  |  |  |

If the ending cash balance is positive or meets the desired minimum cash balance, it becomes the beginning cash balance for the next month; you repeat this process for twelve consecutive months to complete your budget.

If the balance represents a deficit, or doesn’t meet your minimum required monthly cash balance, then the business needs to be able to go to its financial services provider and 6 borrow the difference. Once the business repeats this process for twelve consecutive months, the deepest the borrowing buckets get over that twelve-month period represents its line of credit requirement.

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