

TIPS *from* LauberCFOs

Gain a Clearer Picture of Your Business with a 13 Week Cash Forecast.

The old business adage that “cash is king” seems more important in this challenging economy. While it’s always important to be in a good cash position, it’s more critical to understand the lifeblood of your business in these uncertain times. A 13-week cash forecast will help give you that understanding and put you in a more powerful position to make business decisions.

The forecast should be updated on a weekly basis, so you always have an informed outlook of the coming months. While a 13-week forecast is common and represents a reasonable time horizon, you can create a cash forecast for a different time period. The number of weeks you include is not as important as having a report that gives you a reasonably accurate picture of the road ahead.

To create a 13-week cash forecast, you’ll need to identify expected cash inflows and outflows, as well as your beginning cash balance.

Inflows normally include:

- Cash Sales
- Receivables
- Future sales
- Bank loans
- Rental income
- Any other source of cash

Allocate each of those inflows to the week when you expect the cash to be received.

Next, identify outflows, which could include:

- Payroll
- Payroll taxes
- Material and inventory purchases
- Insurance
- Operating expenses
- Note and lease payments
- Fixed asset additions
- Old accounts payable
- Other significant expenditures including quarterly tax estimates and shareholder distributions

Items on the expense side are usually easy to identify, and can be pulled from your monthly accounting records. Receivables are often less clear, and thus become the item in the forecast that is most challenging for a business to accurately project. A good approach to get a handle on these numbers is to create three categories.

- 1st look at major items. You may need to call your customer or sales rep to get a feel for when these items will be paid. Because of their size, it is important to do the best you can to project when this cash will be received.
- 2nd, look at your consistent payers. Fortunately most companies have some customers that pay like clockwork. As a result, this group can be projected with some accuracy.
- The final group is for smaller, miscellaneous items. While it is difficult to project when these individual receivables will be paid, when you group them together they tend to follow a pattern. If, for example, you have \$400,000 in miscellaneous receivables, and your historical information indicates such receivables are paid in about 35 days, divide that \$400,000 by five weeks to determine figures for your weekly cash forecast.

Once you have projected when your receivable will be paid, you need to add in your projection of cash receipts from future sales. In some businesses, seasonal activity must be considered in the 13-week cash forecast. For example, a construction company may have rising payroll in the spring and the related collection of receivables several weeks later in mid-summer.

The insights from a 13-week cash forecast will not only help you better manage your business but also would be helpful when you need to communicate with your banker or other outsider. Let’s say you have a significant receipt due in Week 11 but your business will be in a difficult cash position prior to that. This tool gives you the ability to see what you might be able to shift on the schedule to deal with

the shortfalls. It also gives you the ability to proactively communicate your situation so that your creditors know what to expect. You will find this goes a long way in gaining cooperation.

taking the time to establish the process. Once it's set up, it's just a matter of plugging in the current numbers. The report becomes even more powerful when you compare its estimates with actual inflows and outflows. With that actual data, you can adjust the report to increase accuracy.

The more challenging your cash position is, the more valuable a 13-week cash forecast becomes. It's worth

Sample 13 Week Cash Forecast

	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13
BEGINNING CASH BALANCE	25,000	30,265	25,297	17,997	(7,328)	11,937	16,505	7,930	(8,895)	(3,470)	(14,505)	16,363	15,488
CASH RECEIPTS													
A/R Collections - major items	10,000	23,464			18,000						20,000		
A/R Collections - consistent payers	4,000	1,000	3,000	2,500	10,000								
A/R Collections - misc	5,000	5,000	5,000	5,000	5,000								
Collections from new sales						6,000	6,000	7,000	18,000	18,000	26,000	18,000	30,000
Tax Refund	-					18,000							
Maintenance Fees	2,000				2,000				2,000				
Total Cash Receipts	21,000	29,464	8,000	7,500	35,000	24,000	6,000	7,000	20,000	18,000	46,000	18,000	30,000
CASH DISBURSEMENTS													
Bank Notes	1,160	557			1,160	557				1,160	557		
Payroll	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700	4,700
Federal Withholding Taxes		4,300		4,300		4,300			4,300		4,300		4,300
State Withholding Taxes				3,100				3,100					3,100
Health Insurance				1,850				1,850					1,850
State Unemployment Tax													4,900
Raw Materials	3,000	3,000	3,000	12,000	3,000	3,000	3,000	3,000	3,000	12,000	3,000	3,000	3,000
Other Operating Expenses	6,875	6,875	7,600	6,875	6,875	6,875	6,875	6,875	6,875	6,875	6,875	6,875	6,875
Equipment Purchases		15,000											
Total Disbursements	15,735	34,432	15,300	32,825	15,735	19,432	14,575	23,825	14,575	29,035	15,132	18,875	24,425
ENDING BALANCE	30,265	25,297	17,997	(7,328)	11,937	16,505	7,930	(8,895)	(3,470)	(14,505)	16,363	15,488	21,063

If you'd like to personally discuss how your company can set up a 13-week cash forecast, call us at 414-273-8060 or, outside of Milwaukee, at 800-358-8060. You can also send an e-mail to: John.Lauber@LauberCFOs.com. One of our LauberCFOs would be happy to work confidentially with you.

"Tips from LauberCFOs" is published by LauberCFOs, Inc., Milwaukee, WI. The material contained in this publication has been prepared for our clients and business associates for general information purpose. It is not intended to be used as the basis for specific action without obtaining further professional advice. Feel free to contact LauberCFOs for additional information. © Copyright 2009. All rights reserved.