



# Developing a 13 Week Cash Flow Forecast

# Presenters



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# Poll Question #1

What is your current experience level with cash flow forecasting?

1. Extensive, this is a refresher
2. Intermediate, not new but it's been a while
3. Limited, this is mostly new to me

# Agenda

- What is cash flow management and forecasting
- Why it's important
- Where do I start
- What do I need
- Setting up the model
- Walking through a model

# What is Cash Flow Management

- Objective of cash flow management is to forecast and manage timing of cash flows to assure cash flow availability to accomplish your Company's mission.
- Cash flow is the flow of money in and out of your business - Not the bottom line!

# What is a Cash Flow Forecast

- A cash forecast is a presentation of cash results based upon assumptions about conditions and actions expected to exist or occur during the forecast period.
  - The time period (forecast period) must be defined
  - Assumptions need to be made
  - The forecast needs to be monitored and reacted to

# Why Do You Need a Cash Forecast

- You need a forecast to ensure that you do not spend more cash than you have or expect to have.
  - To ensure that the cash balance always remains above zero (or desired minimum level)
  - To predict when cash levels will fall to require the need for additional cash or borrowing
  - To predict when cash levels will rise sufficiently to facilitate investment of idle balances

# Why 13 Weeks

- Forces companies to understand the details of their business at a more granular level.
- Breaking the business down on a weekly basis captures the granular movements that can be overlooked if using a month, quarterly, or yearly interval.
- It is also long enough to make strategic decisions while being short enough to provide higher accuracy.



# Review

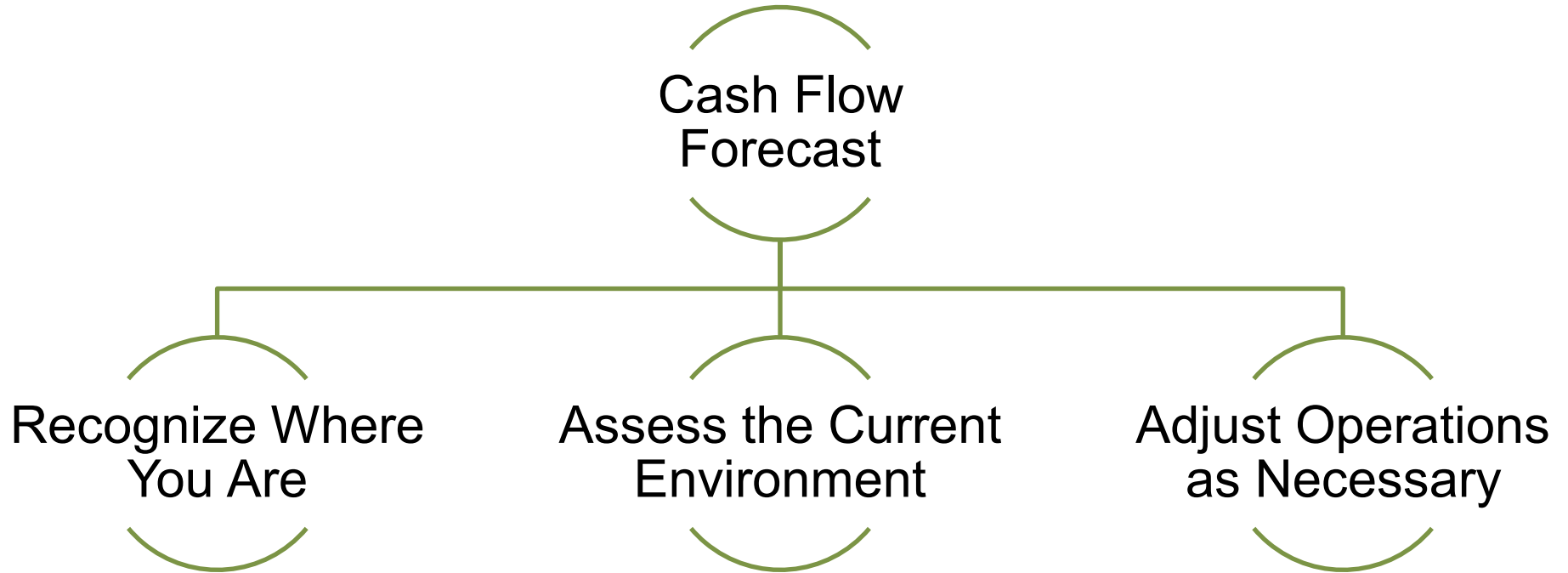
- Cash flow management is to forecast and manage timing of cash flows to assure cash flow availability to accomplish your Company's mission. Sales are not cash!
- A forecast will help you be prepared and not put in a jam.
- A weekly forecast will capture movements that might not be seen if using a monthly or quarterly interval.

## Poll Question #2

How is your business currently impacted by COVID-19?

1. Minimal, pretty much business as usual
2. Moderate, but we'll make it through
3. Huge, unsure if we'll make it out

# Prerequisites for Cash Flow Forecast



# Initial Assessment

- What are your numbers telling you
- Current levels of working capital and reserves
- Line of credit availability
- Additional sources of credit
- Look to historical balance sheet and income statement to develop a baseline and to help forecast the future

# Historical Income statement

	2019	2018	2017	2016	2019	2018	2017	2016
<b>Net sales</b>								
Revenues	7,532,214	7,413,462	7,402,660	6,656,624	100.0%	100.0%	100.0%	100.0%
<b>Operating expenses</b>								
Cost of goods sold	4,194,738	4,434,634	4,473,304	3,830,323	55.7%	59.8%	60.4%	57.5%
Freight	29,832	36,067	43,697	35,674	0.4%	0.5%	0.6%	0.5%
Wages - Production	597,646	533,605	493,932	430,934	7.9%	7.2%	6.7%	6.5%
Payroll taxes - Production	36,232	30,480	36,336	25,856	0.5%	0.4%	0.5%	0.4%
Wages	1,332,742	1,307,373	1,433,103	1,175,822	17.7%	17.6%	19.4%	17.7%
Payroll taxes	97,003	97,848	93,770	87,503	1.3%	1.3%	1.3%	1.3%
Health insurance	294,935	301,201	265,624	282,803	3.9%	4.1%	3.6%	4.2%
Office and administrative expenses	15,960	13,368	18,560	17,285	0.2%	0.2%	0.3%	0.3%
Travel	142,772	142,495	158,376	132,036	1.9%	1.9%	2.1%	2.0%
Meals and entertainment	49,515	44,607	49,361	46,135	0.7%	0.6%	0.7%	0.7%
Legal and accounting	59,723	93,958	76,270	51,249	0.8%	1.3%	1.0%	0.8%
Insurance	66,390	72,190	67,413	69,050	0.9%	1.0%	0.9%	1.0%
Dues and subscriptions	10,980	11,827	13,806	5,994	0.1%	0.2%	0.2%	0.1%
Automobile and truck expense	82,615	86,767	92,173	83,553	1.1%	1.2%	1.2%	1.3%
Depreciation	168,947	123,701	123,949	121,504	2.2%	1.7%	1.7%	1.8%
Property and other taxes	19,361	19,737	17,966	20,691	0.3%	0.3%	0.2%	0.3%
Postage	2,795	1,879	2,452	2,299	0.0%	0.0%	0.0%	0.0%
Utilities	40,729	39,824	42,401	41,166	0.5%	0.5%	0.6%	0.6%
Telephone	20,176	23,300	25,249	23,441	0.3%	0.3%	0.3%	0.4%
Maintenance	12,556	13,483	11,003	39,774	0.2%	0.2%	0.1%	0.6%
Bank charges	42,894	45,418	38,739	5,996	0.6%	0.6%	0.5%	0.1%
Advertising and promotion	30,895	24,911	27,644	53,839	0.4%	0.3%	0.4%	0.8%
Interest expense	59,932	49,526	30,293	26,131	0.8%	0.7%	0.4%	0.4%
Miscellaneous	303	346	417	1,052	0.0%	0.0%	0.0%	0.0%
Provision for bad debts	-	8,836	28,022	-	0.0%	0.1%	0.4%	0.0%
Operating Expenses	7,409,669	7,557,381	7,663,859	6,610,110	98.4%	101.9%	103.5%	99.3%
<b>Net income (loss)</b>	122,545	(143,919)	(261,199)	46,514	1.6%	-1.9%	-3.5%	0.7%

# Spotlight on Customers

- What type of revenue do you have - recurring or periodic
- Customer concentration
- Increase billing frequency, follow up on collections
- Changes in delivery of products or services
- Solidify relationships



# Spotlight on Suppliers

- Impact on supply chain, inventory management
- Critical suppliers
- Renegotiate terms in good faith
- Late or extend payments
- Tighten purchasing approval



# Spotlight on People and Operations

- Potential and imminent or operational changes
- Look for unnecessary waste
- Reduce non-essential expenses
- Consider all alternatives to cutting jobs (reduce hours, furloughs, decrease distributions/wages)
- Ensure decisions to cut are fully thought through





# Review

- Based on the previous assessments, where are possible risks
- Use the weekly cash flow projection to evaluate sustainability, cash, and debt levels
- Increase billing frequency
- Extend payment terms

## Poll Question #3

Has your Company applied for any of the relief funds available (PPP or EIDL)?

1. Yes, approved and received funds already
2. Yes, approved but haven't received funds
3. Yes, applied but not approved
4. Did not need to apply

# How Do I Start

- Label the 13 weeks across the top
- Beginning cash balance
- Cash inflows
- Cash outflows
- Ending cash balance



# Cash Inflows



- Use current accounts receivable listing to estimate when cash will be collected
- Sales forecast to estimate future collections will fill the remaining weeks

# Cash Outflows

- Use current accounts payable listing to estimate the timing of payments
- Separate fixed and variable costs
- Identify your disbursement patterns
  - Payroll periods
  - Rent or mortgage payments
  - Utilities
  - Health insurance
- Use your assumptions to forecast the remaining weeks



# Example Model Assumptions

- We used the simple average for weekly revenue
- We separated some larger fixed costs
- We used the annual percentages to estimate variable costs

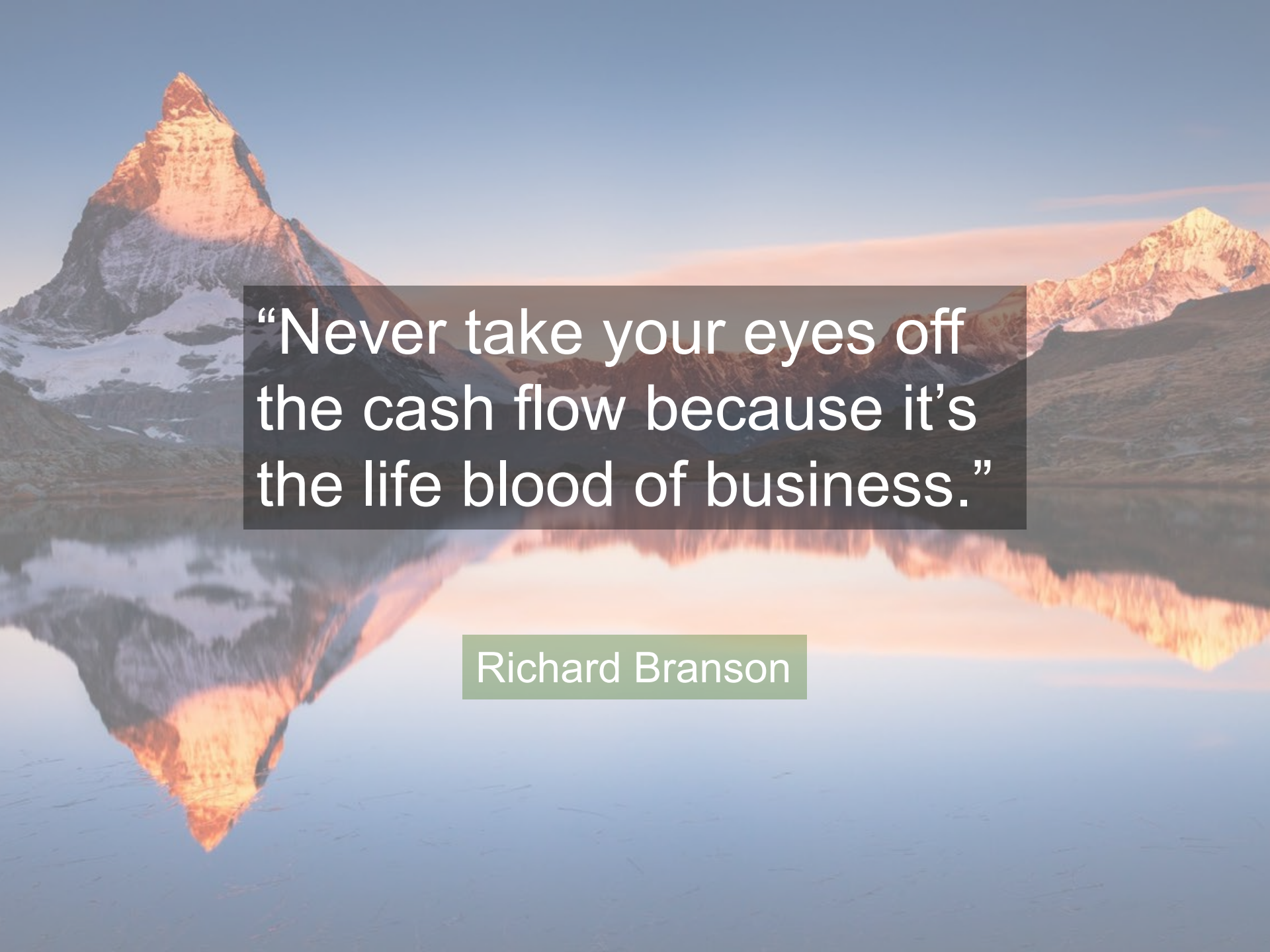
# Example model

Weekly Statistics	<u>Typical Operations:</u>	<u>Current Environment</u>
Weekly Revenue	\$ 150,000	\$ 112,500
Days Sales Outstanding	30	40
Days Payables Outstanding	30	40
Fixed Costs:		
Payroll (Biweekly)		55,000
Health Insurance (Monthly)		25,000
Other Fixed Expenses (Monthly)		13,000
Variable Costs:		
Cost of Goods sold as % of Sales		56%
Production Payroll as % of Sales		8%
Operating expenses as % of Sales		7%

# Summary

- Recognize where you are
- Assess the current environment – Customers, Supplies, and People
- Identify and respond to risks
- Discover opportunities
- Start small, prepare for the last month
- Compare to actual
- Rolling weekly forecast





“Never take your eyes off  
the cash flow because it’s  
the life blood of business.”

Richard Branson

# Thank you!

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