Developing a 13 Week Cash Flow Forecast
Presenters

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Manager
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

- Recognize Where You Are
- Assess the Current Environment
- Adjust Operations as Necessary
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

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

<table>
<thead>
<tr>
<th>Weekly Statistics</th>
<th>Typical Operations</th>
<th>Current Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Revenue</td>
<td>$150,000</td>
<td>$112,500</td>
</tr>
<tr>
<td>Days Sales Outstanding</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Days Payables Outstanding</td>
<td>30</td>
<td>40</td>
</tr>
</tbody>
</table>

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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