

# Financial Literacy



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## Cash Flow: Understanding Cash Flow

**Cash flow is the money that is moving in and out of your business.**

**Your cash flow determines what your business can spend at a given time.**

**In this presentation, you will learn what cash flow is and why it is important to make a cash flow plan when starting your business.**

**Cash Flow** can be compared to water flowing into and out of a bath. The important thing is to maintain enough water in the bath and never allow it to become empty.





For many small businesses, maintaining a positive cash flow can be very difficult. often result in small businesses being forced to shut down because they run out of money.

- High start-up costs
- Irregular work or sales; and
- Lack of planning

Often result in small businesses being forced to shut down because they run out of money.

A cash flow plan is a forecast of how much cash you expect to move in and out of your business each month. It helps you to make sure that your business does not run out of cash at any time.



# Let's try it...Exercise #1: Calculating cash flow-out

The cash flow-out is all the money you estimate that you will spend on costs. In this activity, you will learn more about it and practice calculating cash flow-out.

**#1:** During his first month of starting his business, Mr. Anwar will have to spend a lot of money on baking equipment (800,000 dollars), to equip his kitchen for baking. Apart from that, he will also have to buy baking tools such as bowls, whisks and platters (in total 250,000 dollars).

Every month, Anwar also has to pay in advance for renting a stall in the market where he will be selling his bread (80,000 dollars), and one month of van rental, including gasoline (1,200,000 dollars). At the end of every month, he pays electricity and water bills, which amounts to about 150,000 dollars. Other monthly costs include packaging materials such as bags and boxes (150,000 dollars), and fresh ingredients (600,000 dollars).

**#2:** Using the information in the previous box, let's fill out the cash flow-out table then, calculate the total estimated cash flow-out for each month.

Item	Month 1	Month 2	Month 3	Month 4
Example: water and electricity bills	150,000	150,000	150,000	150,000
Total cash flow-out				

# Let's see what we have...



Item	Month 1	Month 2	Month 3	Month 4
Example: water and electricity bills	150,000	150,000	150,000	150,000
Baking equipments	600,000	-	-	-
Baking tools; bowls, whisks and platters	250,000	-	-	-
Rental stall at the market	80,000	-	-	-
Rental van and fuel	1,200,000	-	-	-
Packaging materials; bags and boxes	150,000	150,000	150,000	150,000
Fresh ingredients	600,000	600,000	600,000	600,000
<b>Total cash flow-out</b>	<b>3,030,000</b>	<b>900,000</b>	<b>900,000</b>	<b>900,000</b>

**#3:Discussion:** During which month will Anwar spend the most money? How much will he need to cover his costs?

## Exercise #2: Calculating cash flow-in

The cash flow-in is all the money you estimate that you will make, for example revenue from sales or grants received. In this activity, you will learn more about it and practice calculating cash flow-in.

**#1:** To start his business, Anwar will use his own savings, 1,000,000 dollars. A few friends want to support him in setting up his own business, and have put together another 1,000,000 dollars of their own money for him.

For the first month, Mr. Anwar predicts that his sales will not be very high as customers do not know of him and his products, so his sales 800,000 dollars.

After the first month, Anwar believes that sales will increase slowly: 1,000,000 dollars during the second month, 1,200,000 dollars during the third month, and 1,400,000 dollars during the fourth month.

The customers in the market will all pay in cash or repay Mr. Anwar their credit the same month.

Mr. Anwar has already agreed to deliver bread daily to a nearby restaurant for 600,000 dollars a month, starting from the beginning of month 2. The restaurant owner has asked if they can pay him every two months so Anwar only receives his first payment of 1,200,000 dollars at the end of month 3.

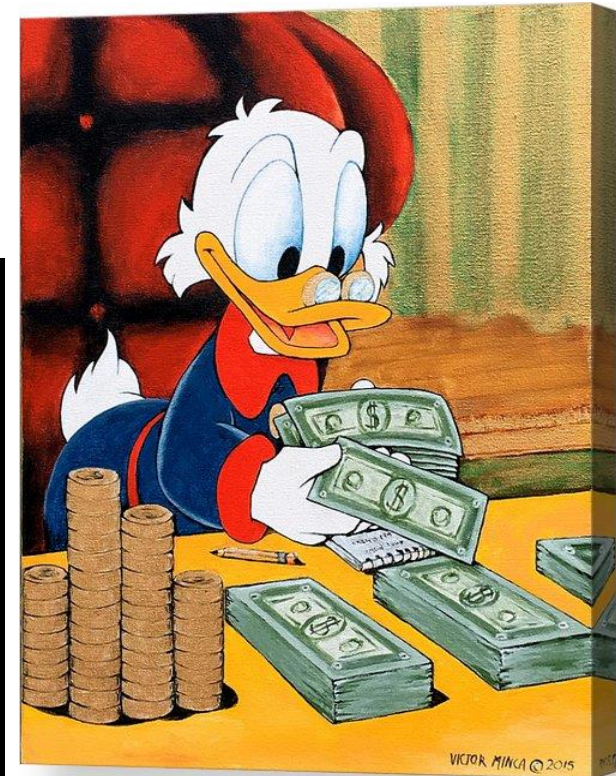
Starting from the third month, Anwar has also signed a contract with a local hotel to deliver bread every Monday for 400,000 dollars a month. The hotel pays him monthly, at the beginning of the month.

**#2:** Using the information in the previous box, let's fill out the cash flow-in table then, calculate the total estimated cash flow-in for each month.



Item	Month 1	Month 2	Month 3	Month 4
Example: Anwar's savings	1,000,000	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
	-	-	-	-
Total cash flow-out	1,000,000	-	-	-

Item	Month 1	Month 2	Month 3	Month 4
Example: Anwar's savings	1,000,000	-	-	-
Friends Money	1,000,000	-	-	-
Sales	800,000	1,000,000	1,200,000	1,400,000
Nearby restaurant	-	-	1,200,000	-
Local Hotel	-	-	400,000	-
Total cash flow-out	2,800,000	1,000,000	2,800,000	1,400,000



**#3: Discussion:** During which month is cash flow-in the highest for Anwar?  
What is the total cash flow-in that month?

# Exercise #3: Preparing a cash flow plan

A cash flow plan shows you how much cash to expect to come into the business and how much cash to expect to go out of the business each month.

When preparing a cash flow plan for your own business, it is important to compare your plan with what actually happened

This will allow you to improve your ability to make projections and thus manage your financials.

In this activity, you will practice preparing a cash flow plan.

## CASH FLOW PLANNING THAT WORKS

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**#1:** Read Mr. Anwar's cash flow plan and compare with your tables in exercise 1 & 2. Did you get the same numbers?

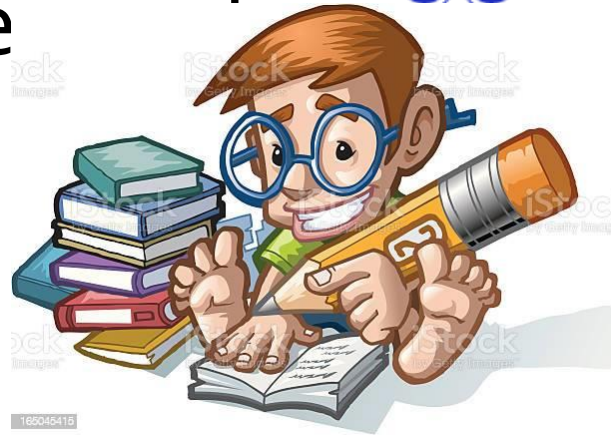
**#2:** Together, calculate Mr. Anwar's cash flow at the end of the month for each month by subtracting the cash flow-out from the cash flow-in every month. Then, fill in how much cash Anwar is left with at the beginning of the month. Write down your answers in the table.

Item	Month 1	Month 2	Month 3	Month 4
Cash at the beginning of the month	2,000,000	(430,000)	(1,610,000)	(990,000)
Total cash flow-in	800,000	1,000,000	2,800,000	1,800,000
Total cash flow-out	3,230,000	2,180,000	2,180,000	2,180,000
Cash flow at the end of the month	(430,000)	(1,610,000)	(990,000)	(1,370,000)

## #3: Discussion:

- ❖ In which months does Anwar have a positive cash flow?
- ❖ In which months does Anwar have a negative cash flow?
- ❖ Does Anwar have enough cash each month to cover costs in case of unforeseen event (example: the oven breaks)?
- ❖ What could Anwar do to avoid having a negative cash flow?

# In this module, we le



❖ What cash flow forecasting is and why it is important

❖ How to calculate cash flow-in and flow-out

❖ How to write a cash flow forecast

❖ Ok! Let's take a break...