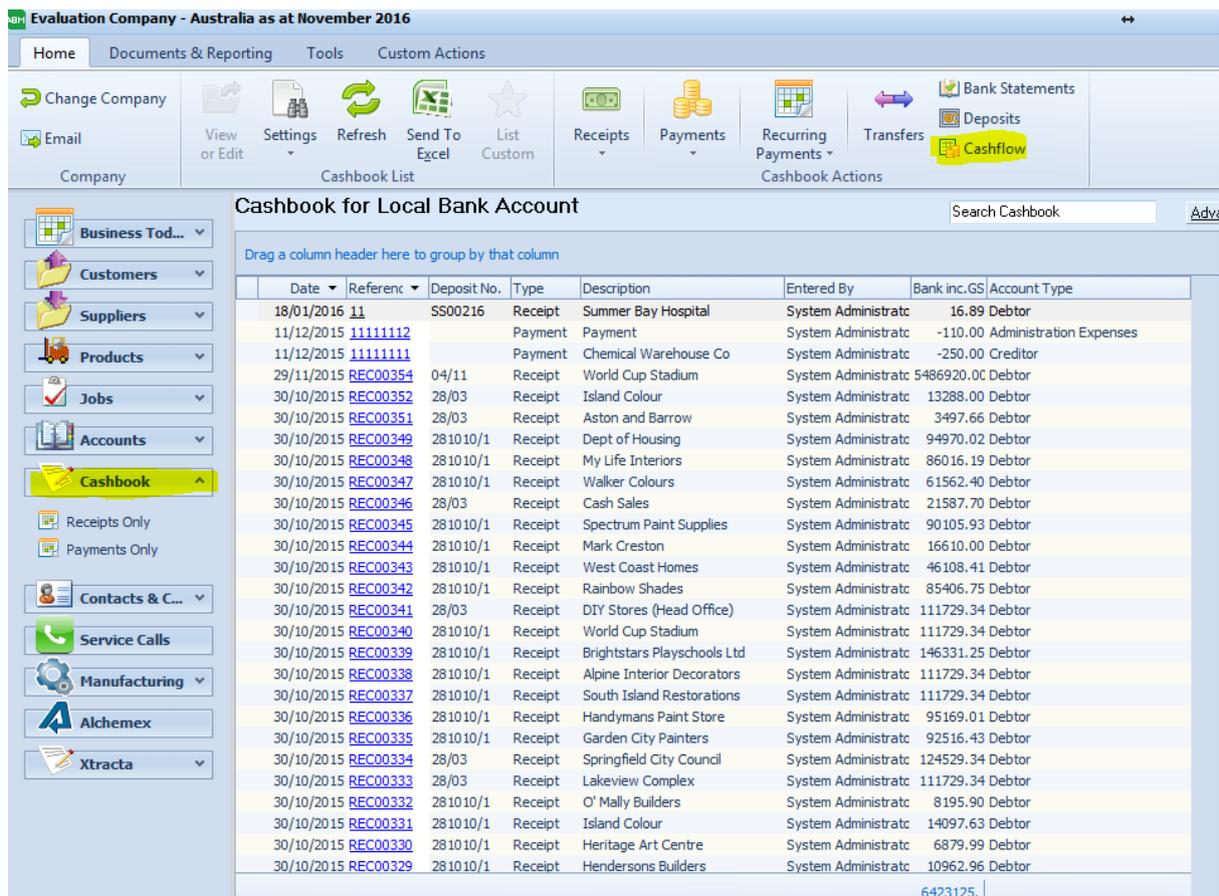## ABM CASHFLOW PROJECTION

Cash Flow Forecasting

You can generate a cashflow projection within ABM which will aid your business to determine what cash will be available each month over a projected twelve month period. Therefore, the cashflow will show the projected movements in funds and show the projected closing balance at the end of each month.

The cash flow will be based on the budget that you have entered for you ledger accounts see Cashflow Set up

To Run the cash flow projection select the Cashbook list on the left hand side of the screen and select Cash Flow from the menu bar.

Cash Flow Setup

Before generating a cashflow projection you need to ensure that all the information is set up correctly. The cashflow will not produce meaningful results unless all the information is set up.

Set up:

You will need to ensure that the following is carried out.

Budgets:

You will need to ensure that a correct budget has been set up and includes sales, purchases and all expenses. To set up the budget either select the ledger account, select Balances and Budgets and select Edit Budgets or use the Budget Wizard

Setting up Ledger Accounts for the Cashflow.
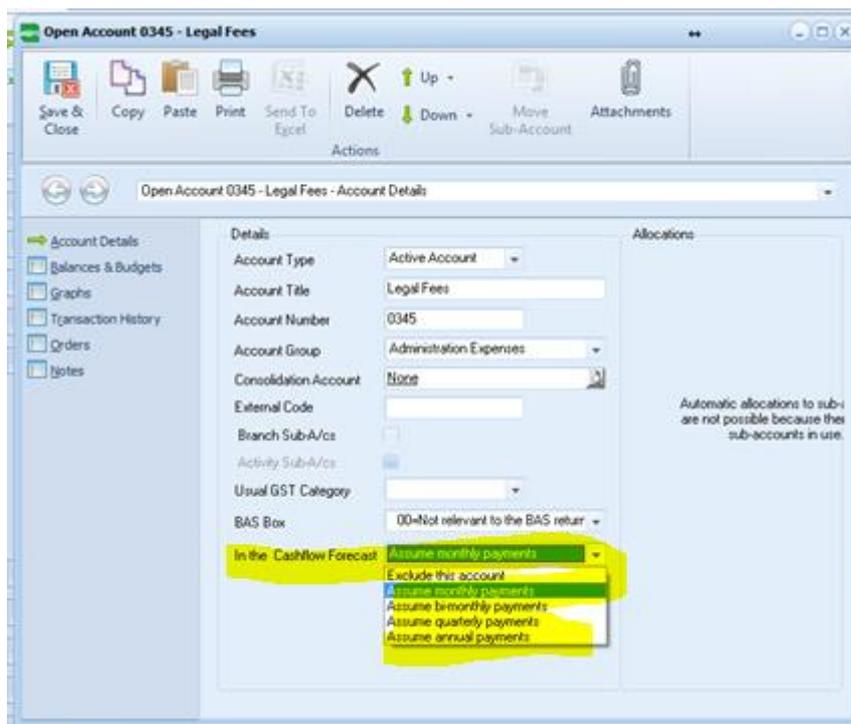
You will need to select a ledger account and from the drop down list for the "In the CashFlow Forecast" select the interval when the expense is due to be paid. The intervals are Monthly, Bi-Monthly, Quarterly or Annually. If you select Bi-monthly, Quarterly or Annually then there will be an additional drop down list to choose the period when the payment will first begin.

Note: This should be the first month that the payment will occur in the financial year. For example if your telephone account is paid bi-monthly and you pay each February, April, June etc then enter February as the first month. Another example is insurance where in most cases it is paid annual but needs to be spread evenly over the twelve months for budget purposes. In this case enter the budget for each month and then select Annually as the interval and ABM will then accumulate the budget values for the twelve months and place the payment in the appropriate month.

Accounts Not Included

Some expense items have an impact on you budget but not on your cashflow for example depreciation. Where an expense item does not have an impact on the cashflow then select Exclude this Account when selecting "In the CashFlow"

Accounts that should not be included include Stock Movement account and Closing Work In Progress. Whilst these accounts will have an impact on your budget and P&L the cash impact will be taken into consideration in the payments to creditors.

Purchase of Fixed Assets and Other Investments

While purchase of fixed assets or investments will not have an impact on your budget, and will not be included in any comparisons when comparing budget to actual, you should set up a budget for these so that they can be included in the cashflow. Enter the amount in the period you expect the expenditure to occur, and select monthly as the interval. By entering the amount in the particular month you expect the expenditure to occur, the cashflow will place it in the appropriate month. By selecting monthly will allow you to enter more than one expenditure for this account. For example, you maybe purchasing new vehicles but not all at the same time. Therefore, you could for example, enter a budget for March and again for July if required.
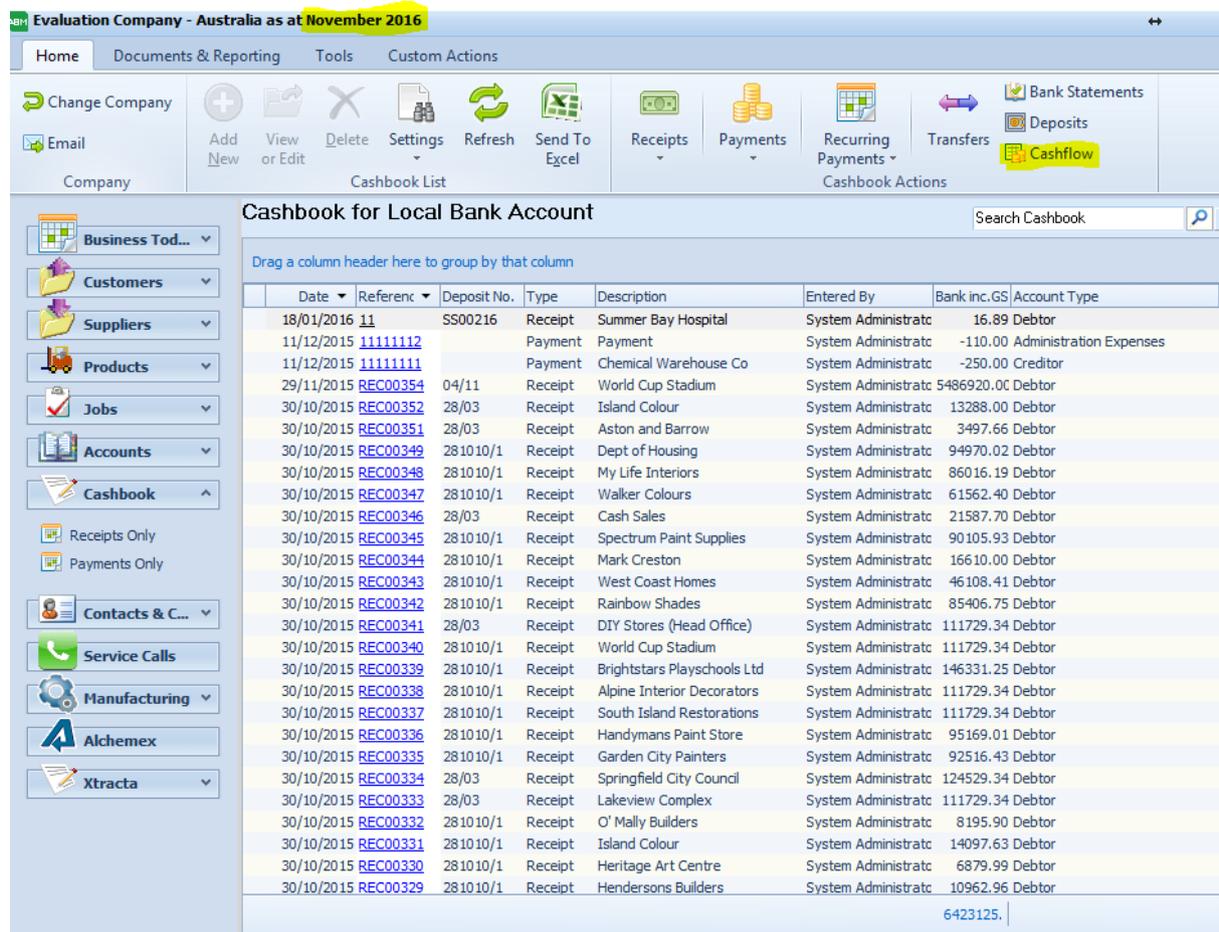
Situations where expenditure is not paid at the same time

There may be situations where you budgeted expenditure is not paid all at the same time. For example Wages, you may be paying out the net wages to employees each month but paying state insurance or pensions at different intervals. As ABM will not be able to determine these different intervals we suggest that you set up a budget for Wages and enter the net amount of wages to be paid. Then set up a budget for Pensions (and set the

consolidation account to Wages). In this way you can then enter a different interval for the payment of pensions and have the budget and expenses still consolidated as Wages.
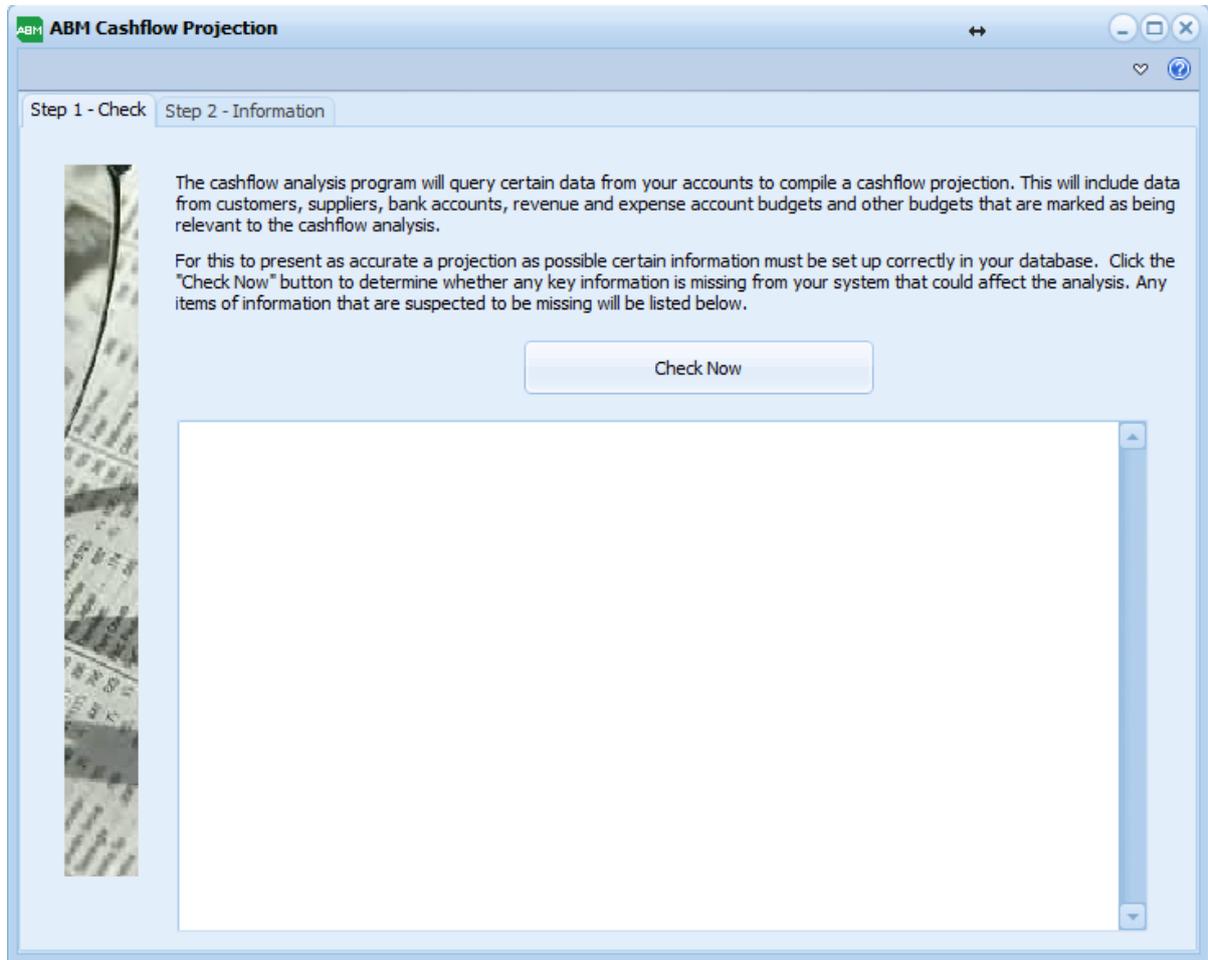
Generating the Cash Flow Projection

To Run the cashflow projection select the Cash Book list on the left hand side of the screen and select CashFlow. **Note:** The cashflow will be generated for a twelve month period commencing with the current reporting period. Therefore if the current reporting period is September the cashflow projection will show all months from September to the following August
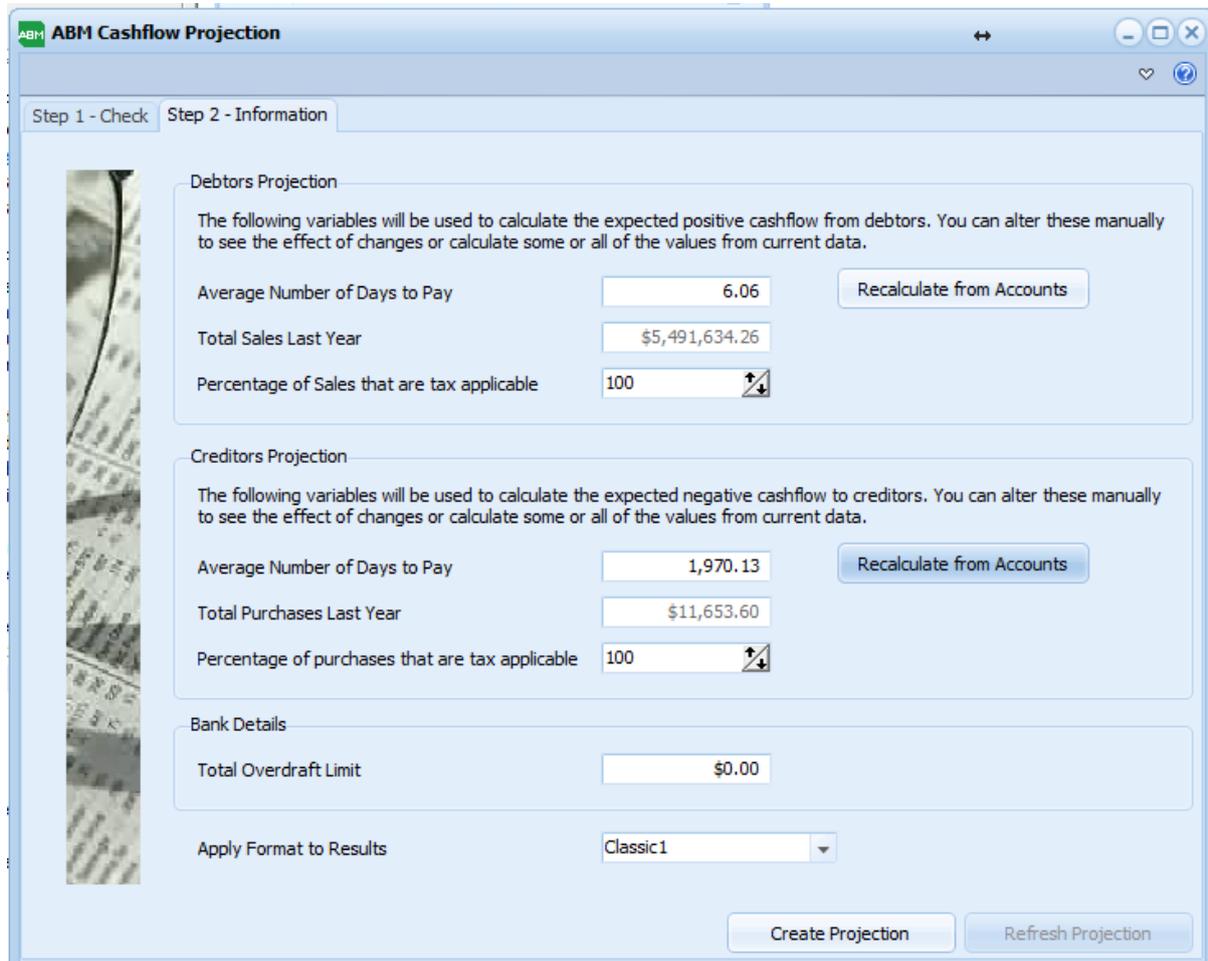
The first screen allows you to check the status of the accounts which form the basis of the cashflow projection. This will check the various control accounts such as debtors and creditors to ensure they are set up correctly. It will also check accounts that have been specified to be included in the cashflow to ensure budgets have been set up for these accounts. When the check is completed select Next to move to the next screen average number

This screen will show information that will be used in the calculation of the cashflow.

Debtor Days:

ABM will calculate the average number of days that debtors have availed of credit over the past year. This works out an average amount of time that the debtor took to pay an invoice from the time it was generated.

Note: This average is calculated based on the current debtor balance and the sales over the previous twelve months. It does not take into consideration any seasonal trends which may effect this calculation. Whilst the debtors days is calculated by ABM you can change this value if it is felt that debtor's balance could be collected quicker. See **Basis Of Calculations** below.

Total Sales for Last Year:

This is the value of sales for the previous twelve months. This value cannot be changed manually.

Percentage Of Sales that are Taxable.

Since tax will be collected on future sales, and therefore will have an impact on what cash is received, you will need to enter the percentage of sales that are taxable. The tax will be calculated at the default tax rate in ABM. The tax will be included as part of you source of income and also included as an outgoing in your application of funds based on the tax interval that has been set up.

Creditor Days:

ABM will calculate the average number of days that you have taken to pay creditors over the past year. This works out an average amount of time that you took to pay an invoice from the time it was generated.

Note: This average is calculated based on the current creditor balance and the purchases over the previous twelve months. It does not take into consideration any seasonal trends which may effect this calculation. Whilst the creditor days is calculated by ABM you can change this value if it is felt that you could extend the number of days to pay you creditors. See **Basis Of Calculations** below.

Total Purchases for Last Year:

This is the value of purchases for the previous twelve months. This value cannot be changed manually.

Percentage Of Purchases that are Taxable.

Since tax will be paid on future purchases, and therefore will have an impact on what cash is paid out, you will need to enter the percentage of purchases that are taxable. The tax will be calculated at the default tax rate in ABM. The tax will be included as part of your application of funds, and also included as a deduction from tax generated form sales, which will appear as an outgoing in your application of funds based on the tax interval that has been set up.

Bank Overdraft

If you have an overdraft limit you can enter the amount here. ABM will then show this value for each month so that you can evaluate if you are reaching or exceeding your overdraft.

Apply Format to Results

From the drop down list you can select the format style for your output.

Generate Cashflow

When you are satisfied that all the information entered is correct, you can select Create Projection. This will then produce a spreadsheet showing your projected source and application of funds, together with the net cashflow movement, and the calculated bank balances. The spreadsheet can be modified manually, or you can enter different criteria, such as debtor or creditor days, or the percentage of sales and purchases that are taxable. If you change these values you can then generate the cashflow again and compare the different projections.

BASIS OF CALCULATION

Source of Funds:

Source of funds from two sources which are, receipts from debtors and other income. Receipts from debtors will be calculated taking the projected sales plus tax (based on the percentage entered) together with the difference between the opening and closing projected debtor balance for each month. The closing debtor balance will be calculated using the projected sales for the period (together with a proportion of sales from the previous year to calculate a year's value of sales) and taking into consideration the average number of debtor days. Other income such as investment income (if included in your budget and the account has an account group of other income of non-operating income) will be included separately.

Application of Funds

Application of funds will be calculated based on payments to creditors together with expense payments as listed in the various ledger accounts and according to the interval set. Payments for assets acquired will be included if

a value has been included in the budget for such an assets account. Payments to creditors will be calculated taking the projected purchases plus tax (based on the percentage entered) together with the difference between the opening and closing projected creditor balance for each month. The closing creditor balance will be calculated using the projected purchases for the period (together with a proportion of purchases from the previous year to calculate a year's value of purchases) and taking into consideration the average number of creditor days.

Net Cashflow

This will be the difference between the source of funds (receipts) and application of funds (payments).

Balance at Bank

Both the opening and closing balance at bank will take all bank accounts into consideration, and combine them as one value.

Debtors and Creditors Balance:

The amounts used for the opening balances for the projection will be the debtors and creditors balance as at the end of the previous period. Therefore, if you generate a cashflow for September the opening balance for debtors will be the balance computed as at the end of August.

Disclaimer: The cashflow projection should be used as a basis of improving your cash management, and should not be used for external negotiations, since the projections are based on variables which may change, and is dependent on having accurate budgets.