## **Cash flow example – Little Friendly Flames Forest School**

*Figure 1* - below shows an example cash flow for our fictional - Little Friendly Flames Forest School. Little Flames is set up as a sole-trader and run by a Qualified Level 3 Forest School leader. The owner contracts another Freelance Level 3 Forest School Leader to help out with delivery at £13 per hour.

Our leader knows that approximately 20% of businesses collapse in the first year and by year 3 over 60% have gone belly up! We know 90% of these fail because of cash flow issues. Thankfully, they have read the information given in chapter 6 and 7 and they have taken time to do some financial planning. By analysing pricing, the different types of markets and clients, their pros and cons they have chosen a strategy which attempts to mitigate some of the common risks and problems they are going to face. They initially have 2 School based client groups and a group of six individual clients for their Saturday Squirrels Club.

They run 3 programmes weekly throughout the year during term time.

- **Programme 1 Saturday Squirrels** runs for 5 hours every Saturday (36 weeks a year) and is booked in twelve-week blocks. The programme has a maximum of 15 spaces and costs £30 per day/per child. Places are booked and paid for in advance, using an online system.
- Programme 2 is delivered for a local School Mendall Primary it runs for 2 hours each week during term time and is charged at £1800 per term (12 weeks of delivery). Schools are usually invoiced on the sixth session of a programme and usually settle their accounts at week 12 by BACS. Each programme has 15 children attending.
- **Programme 3 Home School group –** runs sessions for a group of 15 home school children of various ages, with their parents in attendance. The programme runs for a year during term time (36 weeks) and is paid for by the parents each week in advance of the sessions.

#### The owner of Little Flames has chosen several ways to ensure the best possible survival outcome for year 1:

- They have invested £5000 [Figure 1: Cell D5] of capital investment in their business to get it off the ground.
- They know that the first three year's cash flow is critical and so they have a pricing strategy that diversifies the timing of their revenue.
- The leader has set an operational threshold (a tipping point) in their working capital of £1000 for the first year to ensure that they can still operate and absorb any extra costs. They feel they cannot fall below this amount and still mitigate risks effectively. This is called a **tipping point**.
- The leader and owner has decided that they will take £1000 per month as their earnings (they are a sole trader so this is called *drawings*) [figure 1: row 35]. In the first year they may control their cash flow issues by changing the amount they draw. Although this is a last resort.
- They have done some financial planning and created a cash flow forecast **figure 1** to ensure their strategy works.

They have created a standard cash flow forecast using a template from a well-known spreadsheet program. Just before they begin to deliver their sessions the area is hit by a huge storm and they find that they need to do a tree survey which costs **£2000!** [Figure 1: Cell d22]. They weren't expecting the expense so they add the cost to their cash flow forecast and see how it affects their bottom line (cash on hand) [Row 39].

Figure 1 : Little Friendly Flames Cash Flow Forecast - Year 1

| -  | A B  | c      | D      | E      | F      | G      | н      | 1      | J       | к      | L      | м      | N      | 0      | P               |
|----|--|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|-----------------|
|    |  | 1:41   |        |        |        |        |        | -+ 0 - | h a a l |        |        |        |        |        |                 |
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| 4  |  |        |        |        |        |        |        |        |         |        |        |        |        |        |                 |
| 6  |  |        | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18  | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Total           |
| 7  | Cash on hand (beginning of month)                      | 5,000  | 5,000  | 3,314  | 2,004  | 668    | 4,708  | 3,392  | 2,232   | 2,572  | 760    | 4,394  | 3,234  | 1,888  |                 |
| *  |  |        |        |        |        |        |        |        |         |        |        |        |        |        |                 |
| 9  | REVENUE  |        | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | Jul-18  | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Total           |
| 10 | Forest School - Saturday Squirrels Club                |        | 2,160  |        |        | 3,600  |        |        | 4 000   |        | 5,400  |        |        | 4 000  | 11,160          |
| 11 | Forest School - Mendall Primary                        |        |        |        |        | 1,800  |        |        | 1,800   |        |        |        |        | 1,800  | 3,600           |
| 12 | Forest School - Home school                            |        | 600    | 450    | 600    | 450    | 600    | 600    | 300     |        | 600    | 600    | 600    | 300    | 5,700           |
| 13 | TOTAL REVENUE  |        | 2,760  | 450    | 600    | 5,850  | 600    | 600    | 2,100   | 0      | 6,000  | 600    | 600    | 2,100  | 20,460          |
| 14 | EVERIDITURE  |        | 1 10   | 5 1 40 | 11 10  | 1 10   |        | 1 10   | 1.1.40  | 1 10   | 0 10   | 0.1.10 | 10     | 0 10   |                 |
| 15 | EXPENDITURE  |        | Jan-18 | Feb-18 | Mar-18 | Apr-18 | May-18 | Jun-18 | JUI-18  | Aug-18 | Sep-18 | UCT-18 | NOV-18 | Dec-18 | Total<br>D. 000 |
| 16 | Contracted Labour - Saturday Squirreis Club @ £15/hour |        | 312    | 234    | 312    | 204    | 312    | 204    | 234     | 0      | 312    | 234    | 312    | 130    | 2,000           |
| 10 | Contracted Labour - Home School @ £13/hour             |        | 156    | 117    | 156    | 117    | 156    | 117    | 117     | 0      | 156    | 117    | 156    | 78     | 1 443           |
| 10 | Direct costs total                                     |        | 624    | 468    | 624    | 468    | 624    | 468    | 468     | 0      | 624    | 468    | 624    | 312    | 5.772           |
| 20 |  |        |        |        |        |        |        |        |         | -      |        |        |        |        |                 |
| 21 | Advertising  |        | 10     | 10     | 30     | 30     | 10     | 10     | 10      | 30     | 30     | 10     | 10     | 30     | 220             |
| 22 | Commissions and fees (tree inspection and safety work) |        | 2,000  |        |        |        |        |        |         |        |        |        |        |        | 2,000           |
| 23 | Telephone  |        | 10     | 10     | 10     | 10     | 10     | 10     | 10      | 10     | 10     | 10     | 10     | 10     | 120             |
| 24 | Insurance (public liability)                           |        | 17     | 17     | 17     | 17     | 17     | 17     | 17      | 17     | 17     | 17     | 17     | 17     | 204             |
| 25 | Materials and supplies                                 |        | 60     | 60     | 60     | 60     | 60     | 60     | 60      |        | 60     | 60     | 60     | 60     | 660             |
| 26 | Home Office expense                                    |        | 15     | 15     | 15     | 15     | 15     | 15     | 15      | 15     | 15     | 15     | 15     | 15     | 180             |
| 27 | Rent of lease (site@.t.30/Week)                        |        | 130    | 130    | 130    | 130    | 130    | 130    | 130     | 130    | 130    | 130    | 30     | 130    | 1,560           |
| 28 | CPD  |        | 50     |        |        | 50     |        |        |         |        | 400    |        | 50     | 50     | 400             |
| 30 | Travel   |        | 40     | 40     | 40     | 40     | 40     | 40     | 40      | 40     | 70     | 40     | 40     | 40     | 510             |
| 31 | Utilities  |        | 10     | 10     | 10     | 10     | 10     | 10     | 10      | 10     | 10     | 10     | 10     | 10     | 120             |
| 32 | Indirect costs total                                   |        | 2,322  | 292    | 312    | 342    | 292    | 292    | 292     | 312    | 742    | 292    | 322    | 342    | 6,154           |
| 33 |  |        |        |        |        |        |        |        |         |        |        |        |        |        |                 |
| 34 | Capital purchases (tools, clothing and equipment)      |        | 500    |        |        |        |        |        |         | 500    |        |        |        |        | 1,000           |
| 35 | Owners' withdrawal (drawings)                          |        | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000   | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 12,000          |
| 36 | Taxes - NI Contribution                                |        | 4 500  | 4.000  | 4.000  | 4 000  | 4.000  | 4.000  | 4.000   | 4 500  | 4 000  | 4.000  | 4 000  | 4.000  | 0               |
| 37 |  |        | 7,500  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000   | 1,500  | 7,000  | 1,000  | 1,000  | 1,000  | 73,000          |
| 38 | Cash on hand (and of month)                            | 5000   | 4,440  | 2,004  | 1,936  | 1,010  | 3,302  | 1,760  | 2,572   | 1,012  | 2,300  | 1,760  | 1,946  | 1,054  | 24,926          |
| 39 |  | 5000   | 3,314  | 2,004  | 000    | 4,700  | 3,392  | 2,232  | 2,912   | 700    | 4,394  | 3,234  | 1,000  | 2,004  |                 |

#### Our cash flow forecast explained

This simple monthly cash flow forecast shows us a number of important points:

- Our TOTAL REVENUE (total cash receipts) each month (Row 13)
- Our TOTAL EXPENDITURE (total cash paid out) each month (Row 38)
- The amount of CASH ON HAND we have (our WORKING CAPITAL) each month (Row 39)
- Potential upcoming risks, pinches or problems

It can be tricky to see the flow of the cash from the numbers alone until you are used to reading the forecast. *Figure 2* shows a more graphic representation where you can easily see the flow of money by looking at cash in hand (£) [row 39] at the end of each month. We can see the effect of the regularity of sessions and payments, with large payments arriving somewhere in April and September. What we can't see from Figure 2 is what causes the problems in March or August.



#### Figure 2 : Graphic representation of Little Flames cash flow - year 1

Imagine for a moment that we didn't have the cash flow forecast - we would be happy delivering our Forest School until we reached halfway through March and we suddenly realise we are running out of money (capital) and panic would set in. We would then have limited time and options to solve the issue and at this point a broken vehicle, a loss of equipment or a period of illness could destroy our business and send us bankrupt, force us to take out a business loan or push us to despair.

So, knowing in advance gives us a chance to prevent this from happening?

### Exercise 1. Identifying cash flow issues before they bust your business

In this example both *Figure 1 and 2* show us there is a clear problem in March (and in August) where we drop below our £1000 tipping point. Let's look a little closer into Little Flames' cash flow forecast in Figure 3 and try and identify the cause of the issue in March.

| -  |  |       |           |        |         |        | - |
|----|--|-------|-----------|--------|---------|--------|---|
| 5  |  |       | lan 19    | Eab 19 | Mar 19  | Apr 19 | ÷ |
| 6  | Cook on board (basinging of month)                     | 5 000 | Jan-To    | Pep-16 | Mar-10  | Apr-16 | F |
| 7  | cash on hand (beginning of month)                      | 5,000 | 5,000     | 3,314  | 2,004   | 000    | ۰ |
| *  |  |       | 1 10      | 5-b 40 | Mar. 40 | Acr 10 | - |
| 9  | REVENUE  |       | Jan-18    | Feb-18 | Mar-18  | Apr-18 |   |
| 10 | Forest School - Saturday Squirrels Club                |       | 2,160     |        |         | 3,600  | ⊢ |
| 11 | Forest School - Mendall Primary                        |       |           |        |         | 1,800  | L |
| 12 | Forest School - Home school                            |       | 600       | 450    | 600     | 450    |   |
| 13 | TOTAL REVENUE  |       | 2.760     | 450    | 600     | 5,850  | Γ |
| 14 |  |       |           |        |         |        |   |
| 15 | EXPENDITURE  |       | Jan-18    | Feb-18 | Mar-18  | Apr-18 |   |
| 44 | Contracted Labour - Saturday Squirrels Club @ £13/hour |       | 312       | 234    | 312     | 234    | F |
| 47 | Contracted Labour - Mendall Primary @ £13/hour         |       | 156       | 117    | 156     | 117    | H |
| 10 | Contracted Labour - Home School @ £13/hour             |       | 156       | 117    | 156     | 117    | ⊢ |
| 10 | Direct costs total                                     |       | 624       | 468    | 624     | 468    | ⊢ |
| 19 |  |       | 021       | 400    | 021     | 400    | ⊢ |
| 20 | Advertising  |       | 10        | 10     | 30      | 30     | ⊢ |
| 21 | Commissions and face (trac inspection and eafety work) |       | 2 000     | 10     | 50      |        | ⊢ |
| 22 | Telephone  |       | 2,000     | 10     | 10      | 10     | ⊢ |
| 23 | Incurrence (public lichility)                          |       | 17        | 17     | 10      | 10     | ⊢ |
| 24 | Materials and europlics                                |       | 60        | 60     | 60      | 60     | ⊢ |
| 25 | Hama Office expense                                    |       | 46        | 46     | 46      | 46     | ⊢ |
| 26 | Pont or longe (alte@ C20(week)                         |       | 13        | 13     | 13      | 13     | ⊢ |
| 27 | Rent of lease (site@ £30/week)                         |       | 130       | 150    | 130     | 130    | ⊢ |
| 28 | cop  |       | 50        |        |         |        | ⊢ |
| 29 | Traval   |       | 40        | 40     | 40      | 40     | ⊢ |
| 30 | Itilities  |       | 40        | 40     | 40      | 40     | ⊢ |
| 31 | Indirect costs total                                   |       | 2 2 2 2 2 | 202    | 212     | 242    | ⊢ |
| 32 | man ect costs total                                    |       | 2,522     | 232    | 312     | 342    | ⊢ |
| 33 | Conital availables of (tools, slathing and anying sat) |       | 500       |        |         |        | ⊢ |
| 34 | Capital purchases (tools, clothing and equipment)      |       | 500       | 4 000  | 4 000   | 4 000  | ⊢ |
| 35 | Taxas Micontribution                                   |       | 1,000     | 1,000  | 1,000   | 1,000  | ⊢ |
| 36 | Taxes - Ni contribution                                |       | 4 500     | 4 000  | 4 000   | 4 000  | ⊢ |
| 37 | Other costs total                                      |       | 7,500     | 1,000  | 1,000   | 1,000  | 1 |
| 38 | TOTAL EXPENDITURE                                      |       | 4,446     | 1,760  | 1,936   | 1,810  | Ļ |
| 39 | Cash on hand (end of month)                            | 5000  | 3,314     | 2,004  | 668     | 4,708  |   |
| 40 |  |       |           |        |         |        |   |

Figure 3 : Spring Term - January to April - Cash Flow

We know that Little Flames was hit by an unexpected cost, the £2000 tree survey after the big storm. You can see this cost highlighted in blue. If we look at our cash in hand for the end of January [row 39] we can see despite this extra cost we appear to have a relatively healthy Cash on hand total (£3314). This is often referred to as the *Bottom Line*. All is good, or is it? Not really.

Thankfully, we have done a cash flow forecast and we can see that as we begin to expend on all the things we need to run our sessions our cash in hand quickly drops. We become aware of a *pinch point* in March. A pinch point is where we reach a critical point where our cash flowing out of our business leaves us with a **low** working capital. All businesses encounter pinch points from time to time. There are many different causes of pinch points and strategies to beat them and we cannot identify them all here. DYOR and get some training if you need to know more or contact a financial advisor.

### So, what can we do about the problem?

We can get a better understanding of the problem using the ten points of balancing a cash flow from Chapter 7 - Page 126. First, we begin by exploring the issues.

#### Step 1: Discover (using your cash flow forecast) how long the effect of an event will last (timeframe).

We can see from the forecast that the effect of this unexpected cost stretches into the beginning of April, when we get new revenue. March is the critical month so we need to find a way to solve the cash flow issue there. We know the spring term programmes run from January to April and so this seems like a sensible timeframe to explore (at least initially).

We must also be mindful of the second pinch point that appears in August as any solution put into place in March cannot cause a bankruptcy in August. Let's look at January to April initially as this is the extent of our first terms delivery.

#### Step 2: Estimate the revenue you will receive within that timeframe

We can see from the Revenue totals that we receive £3810 in total revenue between January and the end of March from the three programmes.

However, we receive another £1800 in April for the Mendall Primary School which have been running since January but are paid by invoice in arrears. We also get a further £150 from the last home school session. This increases our eventual total for the three programmes.

Total revenue £5760

#### Step 3: Identify when your revenue is expected

| Month         | Programme          | Revenue<br>(£) |
|---------------|--------------------|----------------|
| January       | Saturday Squirrels | 2160           |
| January       | Home School        | 600            |
| February      | Home School        | 450            |
| March         | Home School        | 600            |
| April         | Home School        | 150            |
| April         | Mendall Primary    | 1800           |
| Total revenue |                    | 5760           |



You can see from the chart above that the revenue income is somewhat sporadic with January and April receiving larger revenue payments and February and March receiving much less. It is fairly typical in business to experience these peaks and troughs in your revenue. Therefore, it is always worth considering the irregular nature of payments might be a factor in your cash flow problems and look for strategies to minimise this effect. We will store this knowledge for later when we begin to look at possible solutions. First we must calculate our expenditure for the same time frame.

NB. It is nearly always better to have all your payments up front, but it is often impractical especially when dealing with schools, charities or small groups. It is also worth considering direct debit payments for long term clients.

#### Step 4: Identify and calculate your expenditure

We know that each set of the Forest School programmes are 12 weeks in length and run during term time.

This is an important consideration on two fronts for this scenario

- 1. We do not have direct costs associated with school holidays as we do not employ our freelance staff during these times.
- 2. We get no income during school holidays!
- 3. We must still budget for our indirect monthly costs despite missing the school holiday sessions.

Let us ignore the indirect costs for a moment. And concentrate on the direct costs. First, let us calculate our approximate monthly expenditure for this term's projects (Jan – April).

#### **Direct expenditure or costs**

Our direct expenditures or costs for this project are the freelance leader's payments to assist the running of the Forest School sessions. We can see a breakdown of three programmes costs below. This is taken from our original forecast [rows 16, 17, 18 and 19].

First, we must calculate the number of sessions in each month. In this example, we deliver four weekly sessions for each programme in January, three in February (because of the half term holiday), four in March and one session in April (as this is the final session for this set of 12 sessions).

We can see the direct costs of staffing each programme below.

| EXPENDITURE  | Jan-18 | Feb-18 | Mar-18 | Apr-18 |
|--|--------|--------|--------|--------|
| Contracted Labour - Saturday Squirrels Club @ £13/hour | 312    | 234    | 312    | 78     |
| Contracted Labour - Mendall Primary @ £13/hour         | 156    | 117    | 156    | 39     |
| Contracted Labour - Home School @ £13/hour             | 156    | 117    | 156    | 39     |
| Direct costs total                                     | 624    | 468    | 624    | 156    |
|  |        |        |        |        |

Spring terms - total direct expenditure £1872

#### Indirect expenditure or costs

We know there is a large indirect expenditure in January, the £2000 tree survey payment. We also know of a second large expenditure in January, a capital cost - £500 spent on tools.

If we look at figure 4 more closely, we notice that we have fairly regular indirect monthly costs. We can see this indicated in Figure 4 [row 32]. Again, lets ignore the £2000 for our tree survey for now in January.

|                                 | Jan | Feb | March | April |
|---------------------------------|-----|-----|-------|-------|
| Monthly Indirect cost total (£) | 322 | 292 | 312   | 82    |
| Total for spring term           |     |     |       | £1058 |

Therefore, in a normal spring without the storm

#### Spring terms - indirect expenditure is £1058

If we add the direct and indirect expenditure we get an idea of what a typical expenditure would be to run the three programmes for a term

Direct costs - £1872

Indirect costs – £1058

Total expenditure - £2430

We know our revenue would usually be **£5760** meaning after all our usual expenditure we would be left with £3300 surplus BUT not this time because we now have to factor in the tools, tree survey costs (and although not strictly an expenditure the owner's withdrawals)...

# Total expenditure

| Expenditure type    | Amount<br>(£) |
|---------------------|---------------|
| Direct              | 1872          |
| Indirect            | 1058          |
| Capital (tools)     | 500           |
| Tree Survey         | 2000          |
| Subtotal            | 5430          |
| Owner's withdrawals | 3250          |
| Total               | 8680          |

Total expenditure Spring Term (Jan – April) = £8680, ouch!

#### Step 5: Work out what your surplus or deficit is

| Total revenue      | 5760   |
|--------------------|--------|
| Total expenditure  | 8680   |
| Surplus or Deficit | -£2920 |

As expected, there is a hefty deficit on the first terms trading. Little Flames may need to explore the viability of their product, review their sales or they may need to review their pricing.

So far, we have identified three main issues:

- The unexpected expenditure £2000
- The sporadic nature of revenue receipts
- The timing of expenditure and income

#### Step 6 : Review your sales

(e.g. can you increase sales, numbers of participants/clients with a marketing strategy by offering one-off-discount for example).

In reviewing the sales Little Flames discovered that the Saturday Squirrels Clubs is not performing well, with less than half capacity (6 out of 15 places filled). This means that whilst its revenue covers the direct costs of running the programme it does not cover the indirect costs or the planned owner's withdrawal.

So, we have encountered another contributing issue to our problem as we reviewed our sales

• A lack of surplus from the Saturday Squirrels club

In order to raise the business to a break-even point they club needs to fill more places (at least three)

As we are running a cash flow forecast, and we are forewarned of the upcoming issue, we have the possibility of offering a discount to increase sales. After doing a few sums Little Flames realise they could afford to offer a one-off 10% discount, if they could fill all the spaces. It is a gamble because morally they must offer the 10% to all the customers to ensure no one is upset and if they don't sell the places, they could end up worse off!

#### Step 7: Explore the timing of your revenue

(Can you speed up a payment, invoice corporate clients early, offer incentives for cash up front or early bird payments?)

The dip in cash on hand (operational capital) caused by the £2000 survey mean that as we deliver our sessions and accrue expenditure, we start to run out of cash. This is compounded by the timing of revenue receipts and the outstanding revenue from Mendall Primary.

As we have forecasted the problem little Flames have an option/possibility of speeding up the payment from Mendall Primary by a week or so, as long as we can get the school to agree to the plan and get our invoices sorted quickly enough. Before we test anything on our forecast Little flames have one final exploration to do, to explore the timings of the expenditures.

#### Step 8: Explore timings of expenditure

(Could payments out be deferred, reduced, split or avoided altogether?)

One of our issues is we are crediting Mendall Primary and receive their payment after we have covered our cost, so reducing or splitting our costs could solve this issue for us.

We have to have the tree survey done for safety reasons and we can't defer the payment for this service. We cannot defer our direct costs or our staff won't get paid and that is bad management. There is a saying in business 'Staff don't leave jobs they leave managers!' and this is always worth bearing in mind. We can't reduce the running costs and still provide adequate staff cover.

We could reduce the £500 worth of tools in January, or split the cost 50:50 January/April but this would decrease the value of our programme. We want the best quality provision, so although this is a possible solution in this case we can reserve it for a last resort.

*Step 9: Apply any appropriate alterations and recalculate your expenditure, surplus/deficit and cash in hand.* **We have identified two possible solutions:** 

- Increasing sales of the Saturday Squirrels by offering a 10% discount
- Invoicing Mendall Primary a week earlier

Let's very quickly explore both in turn:

#### Saturday Squirrels solution

Figure 4: shows the new cash flow forecast, you can see the revenue for the Saturday squirrels club has increased from £2160 to £4860. This represents the 15 spaces being filled per session and all participants receive a 10% one-off discount.

This increases the cash on hand (working capital) and the pinch point in March remains well above the threshold of £1000. This is because Little Flames' expenditure remains the same but their revenue increases.

This would be a definite improvement; it even prevents the second pinch point in August but as we discussed earlier it is a slight risk.

|  |       | Jan-18         | Feb-18  | Mar-18  | Apr-18  | May-18 | Jun-18 | Jul-18  | Aug-18 | Sep-18 | Oct-18  | Nov-18 | Dec-18  | Total  |
|--|-------|----------------|---------|---------|---------|--------|--------|---------|--------|--------|---------|--------|---------|--------|
| Cash on hand (beginning of month)                      | 5,000 | 5,000          | 6,014   | 4,704   | 3,368   | 7,408  | 6,092  | 4,932   | 5,272  | 3,460  | 7,094   | 5,934  | 4,588   |        |
|  |       |                |         |         |         |        |        |         |        |        |         |        |         |        |
| REVENUE  |       | Jan-18         | Feb-18  | Mar-18  | Apr-18  | May-18 | Jun-18 | Jul-18  | Aug-18 | Sep-18 | Oct-18  | Nov-18 | Dec-18  | Total  |
| Forest School - Saturday Squirrels Club                |       | 4,860          | )       |         | 3,600   |        |        |         |        | 5,400  |         |        |         | 13,860 |
| Forest School - Mendall Primary                        |       | $\overline{)}$ |         |         | 1,800   |        |        | 1,800   |        |        |         |        | 1,800   | 3,600  |
| Forest School - Home school                            |       | 600            | 450     | 600     | 450     | 600    | 600    | 300     |        | 600    | 600     | 600    | 300     | 5,700  |
| TOTAL REVENUE  |       | 5,460          | 450     | 600     | 5,850   | 600    | 600    | 2,100   | 0      | 6,000  | 600     | 600    | 2,100   | 23,160 |
|  |       |                |         |         |         |        |        |         |        |        |         |        |         |        |
| EXPENDITURE  |       | Jan-18         | Feb-18  | Mar-18  | Apr-18  | May-18 | Jun-18 | Jul-18  | Aug-18 | Sep-18 | Oct-18  | Nov-18 | Dec-18  | Total  |
| Contracted Labour - Saturday Squirrels Club @ £13/hour |       | 312            | 234     | 312     | 234     | 312    | 234    | 234     | 0      | 312    | 234     | 312    | 156     | 2,886  |
| Contracted Labour - Mendall Primary @ £13/hour         |       | 156            | 117     | 156     | 117     | 156    | 117    | 117     | 0      | 156    | 117     | 156    | 78      | 1,443  |
| Contracted Labour - Home School @ £13/hour             |       | 156            | 117     | 156     | 117     | 156    | 117    | 117     | 0      | 156    | 117     | 156    | 78      | 1,443  |
| Direct costs total                                     |       | 624            | 468     | 624     | 468     | 624    | 468    | 468     | 0      | 624    | 468     | 624    | 312     | 5,772  |
|  |       |                |         |         |         |        |        |         |        |        |         |        |         |        |
| Advertising  |       | 10             | 10      | 30      | 30      | 10     | 10     | 10      | 30     | 30     | 10      | 10     | 30      | 220    |
| Commissions and fees (tree inspection and safety work) |       | 2,000          |         |         |         |        |        |         |        |        |         |        |         | 2,000  |
| Telephone  |       | 10             | 10      | 10      | 10      | 10     | 10     | 10      | 10     | 10     | 10      | 10     | 10      | 120    |
| Insurance (public liability)                           |       | 17             | 17      | 17      | 17      | 17     | 17     | 17      | 17     | 17     | 17      | 17     | 17      | 204    |
| Materials and supplies                                 |       | 60             | 60      | 60      | 60      | 60     | 60     | 60      |        | 60     | 60      | 60     | 60      | 660    |
| Home Office expense                                    |       | 15             | 15      | 15      | 15      | 15     | 15     | 15      | 15     | 15     | 15      | 15     | 15      | 180    |
| Rent or lease (site@ £30/week)                         |       | 130            | 130     | 130     | 130     | 130    | 130    | 130     | 130    | 130    | 130     | 130    | 130     | 1,560  |
| Repairs and maintenance                                |       | 30             |         |         | 30      |        |        |         | 60     |        |         | 30     | 30      | 180    |
| CPD  |       |                |         |         |         |        |        |         |        | 400    |         |        |         | 400    |
| Travel   |       | 40             | 40      | 40      | 40      | 40     | 40     | 40      | 40     | 70     | 40      | 40     | 40      | 510    |
| Utilities  |       | 10             | 10      | 10      | 10      | 10     | 10     | 10      | 10     | 10     | 10      | 10     | 10      | 120    |
| Indirect costs total                                   |       | 2,322          | 292     | 312     | 342     | 292    | 292    | 292     | 312    | 742    | 292     | 322    | 342     | 6,154  |
| • " · · · · · · · · · · · · · · · · · ·                |       | 500            |         |         |         |        |        |         | 500    |        |         |        |         | 1 000  |
| Capital purchases (tools, clothing and equipment)      |       | 500            | 4 0 0 0 | 4 0 0 0 | 4 0 0 0 | 4 000  | 4 000  | 4 0 0 0 | 500    | 4 000  | 4 0 0 0 | 4 000  | 4 0 0 0 | 1,000  |
| Owners' withdrawai (drawings)                          |       | 1,000          | 1,000   | 1,000   | 1,000   | 1,000  | 1,000  | 1,000   | 1,000  | 1,000  | 1,000   | 1,000  | 1,000   | 12,000 |
|  |       | 4 500          | 4 000   | 4 000   | 4 000   | 4 000  | 4 000  | 4 000   | 4 500  | 4 000  | 4 000   | 4 000  | 4 000   | 0      |
|  |       | 1,500          | 1,000   | 1,000   | 1,000   | 1,000  | 1,000  | 1,000   | 1,500  | 1,000  | 1,000   | 1,000  | 1,000   | 13,000 |
|  |       | 4,446          | 1,760   | 1,936   | 1,810   | 1,916  | 1,760  | 1,760   | 1,812  | 2,366  | 1,760   | 1,946  | 1,654   | 24,926 |
| Cash on hand (end of month)                            | 5000  | 6,014          | 4,704   | 3,368   | 7,408   | 6,092  | 4,932  | 5,272   | 3,460  | 7,094  | 5,934   | 4,588  | 5,034   |        |

Figure 4 : Solving cash flow by offering 10% discount to fill empty spaces

#### **Mendall Primary solution**

Little Flames have been very careful to cultivate a good rapport with the admin staff in the school. The owner feels able to ask if it would be possible to invoice a couple of weeks early to hasten the payment of the account, just this once. The school agrees and pays one week early shifting their payment into March. Figure 5: shows the new cash flow forecast illustrating this option. You can see that moving the payment prevents the pinch point in March but doesn't raise the overall working capital and leaves us with a problem in August. From a cash flow point the solution works but for a better, more resilient business a mix of both solutions is best. This is where the final step of the model comes into play.

|  |       | Jan-18 | Feb-18 | Mar-18   | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Total  |
|--|-------|--------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cash on hand (beginning of month)                      | 5,000 | 5,000  | 3,314  | 2,004    | 2,468  | 4,708  | 3,392  | 2,232  | 2,572  | 760    | 4,394  | 3,234  | 1,888  |        |
|  |       |        |        |          |        |        |        |        |        |        |        |        |        |        |
| REVENUE  |       | Jan-18 | Feb-18 | Mar-18   | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Total  |
| Forest School - Saturday Squirrels Club                |       | 2,160  |        | $\frown$ | 3,600  |        |        |        |        | 5,400  |        |        |        | 11,160 |
| Forest School - Mendall Primary                        |       |        |        | ( 1,800  | )      |        |        | 1,800  |        |        |        |        | 1,800  | 3,600  |
| Forest School - Home school                            |       | 600    | 450    | 600      | 450    | 600    | 600    | 300    |        | 600    | 600    | 600    | 300    | 5,700  |
| TOTAL REVENUE  |       | 2,760  | 450    | 2,400    | 4,050  | 600    | 600    | 2,100  | 0      | 6,000  | 600    | 600    | 2,100  | 20,460 |
|  |       |        |        |          |        |        |        |        |        |        |        |        |        |        |
| EXPENDITURE  |       | Jan-18 | Feb-18 | Mar-18   | Apr-18 | May-18 | Jun-18 | Jul-18 | Aug-18 | Sep-18 | Oct-18 | Nov-18 | Dec-18 | Total  |
| Contracted Labour - Saturday Squirrels Club @ £13/hour |       | 312    | 234    | 312      | 234    | 312    | 234    | 234    | 0      | 312    | 234    | 312    | 156    | 2,886  |
| Contracted Labour - Mendall Primary @ £13/hour         |       | 156    | 117    | 156      | 117    | 156    | 117    | 117    | 0      | 156    | 117    | 156    | 78     | 1,443  |
| Contracted Labour - Home School @ £13/hour             |       | 156    | 117    | 156      | 117    | 156    | 117    | 117    | 0      | 156    | 117    | 156    | 78     | 1,443  |
| Direct costs total                                     |       | 624    | 468    | 624      | 468    | 624    | 468    | 468    | 0      | 624    | 468    | 624    | 312    | 5,772  |
|  |       |        |        |          |        |        |        |        |        |        |        |        |        |        |
| Advertising  |       | 10     | 10     | 30       | 30     | 10     | 10     | 10     | 30     | 30     | 10     | 10     | 30     | 220    |
| Commissions and fees (tree inspection and safety work) |       | 2,000  |        |          |        |        |        |        |        |        |        |        |        | 2,000  |
| Telephone  |       | 10     | 10     | 10       | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 120    |
| Insurance (public liability)                           |       | 17     | 17     | 17       | 17     | 17     | 17     | 17     | 17     | 17     | 17     | 17     | 17     | 204    |
| Materials and supplies                                 |       | 60     | 60     | 60       | 60     | 60     | 60     | 60     |        | 60     | 60     | 60     | 60     | 660    |
| Home Office expense                                    |       | 15     | 15     | 15       | 15     | 15     | 15     | 15     | 15     | 15     | 15     | 15     | 15     | 180    |
| Rent or lease (site@ £30/week)                         |       | 130    | 130    | 130      | 130    | 130    | 130    | 130    | 130    | 130    | 130    | 130    | 130    | 1,560  |
| Repairs and maintenance                                |       | 30     |        |          | 30     |        |        |        | 60     |        |        | 30     | 30     | 180    |
| CPD  |       |        |        |          |        |        |        |        |        | 400    |        |        |        | 400    |
| Travel   |       | 40     | 40     | 40       | 40     | 40     | 40     | 40     | 40     | 70     | 40     | 40     | 40     | 510    |
|  |       | 10     | 10     | 10       | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 10     | 120    |
| Indirect costs total                                   |       | 2,322  | 292    | 312      | 342    | 292    | 292    | 292    | 312    | /42    | 292    | 322    | 342    | 6,154  |
|  |       | 500    |        |          |        |        |        |        | 500    |        |        |        |        | 4 000  |
| Capital purchases (tools, clothing and equipment)      |       | 1 000  | 1 000  | 1 000    | 1 000  | 1 000  | 1 000  | 1 000  | 500    | 1 000  | 1 000  | 1 000  | 1 000  | 1,000  |
| Taxes NI contribution                                  |       | 1,000  | 1,000  | 1,000    | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 12,000 |
| Other costs total                                      |       | 1 500  | 1 000  | 1 000    | 1 000  | 1 000  | 1 000  | 1 000  | 1 500  | 1 000  | 1 000  | 1 000  | 1 000  | 12 000 |
|  |       | 1,000  | 1,000  | 1,000    | 1,000  | 1,000  | 1,000  | 1,000  | 1,000  | 2 366  | 1,000  | 1,000  | 1,000  | 24 026 |
|  |       | 4,440  | 1,700  | 1,930    | 1,010  | 1,910  | 1,700  | 1,700  | 1,012  | 2,300  | 1,700  | 1,940  | 1,004  | 24,920 |
| Cash on hand (end of month)                            | 5000  | 3,314  | 2,004  | 2,468    | 4,708  | 3,392  | 2,232  | 2,572  | 760    | 4,394  | 3,234  | 1,888  | 2,334  |        |

Figure 5 : Mendall Primary Solution

#### Step 10 : Revisit steps 1 – 9

You can keep revisiting steps 1 -9 until you are able to find the problem or reach a solution to your cash flow. Once resolved finalise and print your New Cash flow budget. Cash flow is constantly changing so you should always keep an eye on your forecast and your bottom line. You should keep your forecast up to date, it really can save your business! You can use some great tools to make it easier to spot problems on most spreadsheet programs that allow you to conditionally format the cells in a sheet. You can format them to change colour if they drop below a selected amount like the threshold in our example so you can see problems easier. It is well worth getting some extra training in the financial management of your business. You can also get lots of finance apps and even virtual assistants to help keep on top of things.