

Cashflow information from TaxAssist Accountants.

Introduction to cashflow

You may have an ambitious business plan as you look to start your new venture or grow your business. However, unless you plan and can anticipate your cashflow, you will have real problems. This will be even more significant in the early days of your business, but will also hamper future growth and can impact on day to day trading even when your business is more established.

Cashflow is vital. Remember the following adage and take heed of its warnings. Turnover is vanity, profit is sanity, but cashflow is reality. Although a simple phrase it is worth repeating here. A large forecast turnover and a predicted profit figure are of little relevance if cashflow problems force in extreme cases, business failure before the profits materialise into hard cash.

Turnover and cashflow

A good business plan and [cashflow forecast](#), backed up by reliable evidence is essential if a business is to be successful in raising start up finance. The principles are the same in later years for expansion finance but we will cover start-up finance here.

The banks will firstly look at the experience and quality of the detailed business plan. For this reason it is important that you have open dialogue channels with your local business banking manager. Remember, banks are in business to lend money and where the lending decision is as easy as possible for them, they are more happy to accommodate.

Next, you must be credit worthy. In the majority of cases banks will expect to take security and see at least 30 percent own cash injection into a proposal.

The words of the business plan must reflect the aims and aspirations of the business. The actual numbers in the cashflow forecast must show that the level of borrowing requested is a) Likely to be paid back, b) Is sufficient to run the business and c) Covers the personal drawings requirements of the owners.

The biggest mistake a business can make in a proposal to a bank is to under or over borrow. If you over borrow, you will pay more in interest charges than is necessary. If you under borrow, and return to the bank within a year cap in hand asking for more, your business planning skills and acumen will be questioned and you will be unlikely to raise additional funds.



Banks are of course experienced lenders so it helps to know exactly what areas they will be concentrating on when seeking finance. A [good accountant](#) who has been through the process many times can help to avoid problems.

Forecasting

You should use the information in a cashflow forecast to extrapolate your own income and cashflow over the same period. A good business will have such systems in place, usually with the help of an accountant. A [good accountant](#) can report figures back to you monthly and you should have the ability to check your budgets in your business plan to your actuals:

- a) To ensure that your income streams are protected.
- b) To spot any potential problems and take remedial action early.

There is nothing worse than looking at a set of accounts a year later to see a problem that could have been avoided if spotted earlier.