

### Cashflow Forecasts, Profit Budgets and Projected Balance Sheets – “3 Way Forecasts”

There is certainly a lot of uncertainty at present in the Australian economy.

Interest rates are at a record low because the Reserve Bank is very concerned about the state of the Australian economy. Unemployment is slowly rising - and there is a significant increase in casual and part-time work being performed in Australia.

Debtors' payments have only improved by 0.4 of a day since the revelation in 2016 that Australia had the dubious title of the “longest debtors' days outstanding in the world”. At that time Kate Carnell, the Australian government's Small Business Ombudsman, said that late payments are the “*silent killer of small business*”. The debtors' days' outstanding figure that Ms Carnell was commenting on was 56.4 days.

It was reported on 6 March 2020 that research by market analysts East and Partners had indicated that the SME waiting period for payment in Australia **was currently 56 days**. This highlights the real problem that businesses have in managing their debtors to try to ensure that invoices are prepared accurately, they are emailed to their customers promptly and that prompt follow-up action is implemented to have discussions with any customer who is outside the business' stipulated payment terms.

A Budget will show the expected income and expenditure for the business and the emerging profit. You can then calculate various “what if” scenarios to factor in potential changed circumstances e.g. lower or higher interest rates; fuel costs or currency conversion rates.

Budgeting lets you diagnose problems in advance. If the Budget you prepare doesn't provide you with an adequate profit, then you can decide on appropriate action to take to try to achieve your desired profit, rather than waiting for the events to unfold.

When the Budget is completed it is then the time to prepare a Cashflow Forecast. The Cashflow Forecast will reflect the figures contained within the Budget with appropriate timing differences for debtors' payments, creditors' payments, investment in stock as well as taxation commitments, loan repayments, dividends or drawings and capital expenditure.

The Budgeting and Cashflow Forecast process will benefit from the preparation of Projected Balance Sheets at the end of each financial year as part of the Budget/Cashflow Forecasts scenario. The preparation of the Projected Balance Sheets will enable accurate Projected Source and Application of Funds reports to be prepared which will assist management to understand what is happening to the cash generated within the business.

Most businesses in Australia are now caught in a cycle that could become quite vicious if appropriate planning is not undertaken now!

**If you would like to discuss with us the preparation of a Budget/Cashflow Forecasts and Projected Balance Sheets for the period through to 30 June 2020 and to 30 June 2021, which you can present to your bank, please contact us for a consultation. These projections can be made on a high-level basis initially if required, keeping costs down.**

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