Lesson 3: Cash flow and forecasts

KNOWLEDGE ORGANISER

🎯 Learning goals

- ✓ Explain cash flow and why it matters
- ✓ Identify inflows and outflows
- ✓ Calculate net cash flow and closing balance
- ✓ Suggest ways to improve cash flow

🔑 Key words

Cash flow The money flowing into and out of a business over time.

Inflow Money coming in (e.g. from sales).

Outflow Money going out (e.g. wages, rent, stock).

Net cash flow Inflows minus outflows in a period.

Closing balance Opening balance + net cash flow.

📘 What you need to know

Opening balance + **Net cash flow** (inflows – outflows) = **Closing balance**

Closing balance = opening balance + net cash flow.

1. Cash flow and why it matters

Cash flow is the money flowing **into and out of** a business over time. **Inflows** are money coming in (mostly sales); **outflows** are money going out (wages, rent, stock). Cash flow matters because a business can be **profitable but still fail** if it runs out of cash to pay its bills on time — this is why cash is sometimes called the lifeblood of a business.

2. The cash-flow forecast

A **cash-flow forecast** predicts future inflows and outflows. Two key calculations: **net cash flow = inflows – outflows**, and **closing balance = opening balance + net cash flow**. Each month's closing balance becomes the next month's opening balance.

Pedal Power (£)	Jan	Feb	Mar
Opening balance	2,000	3,000	2,500
Inflows (sales)	6,000	5,500	7,000
Outflows	5,000	6,000	5,500
Net cash flow	+1,000	–500	+1,500
Closing balance	3,000	2,500	4,000

> *"Net cash flow = inflows – outflows. Closing balance = opening balance + net cash flow."*

3. Improving cash flow

If cash runs low, a business can **chase customer payments** sooner, **delay paying suppliers** (using trade credit), **cut or delay costs**, or **arrange an overdraft**. Each helps the timing of cash, even if it doesn't make the business more profitable.

✅ Test yourself

Cover the answers below, answer Q16–Q23, then check.

Q16 What is cash flow?
Q17 What is a cash-flow forecast?
Q18 What are cash inflows?
Q19 What are cash outflows?
Q20 What is net cash flow?
Q21 How do you calculate the closing balance?
Q22 Why is cash flow important?
Q23 Give one way to improve cash flow.

ANSWERS

A16 The money flowing into and out of a business over time.
A17 A prediction of future cash inflows and outflows.
A18 Money coming into the business (e.g. from sales).
A19 Money going out of the business (e.g. wages, rent, stock).
A20 Inflows minus outflows in a period.
A21 Opening balance + net cash flow.
A22 A business can be profitable but still fail if it runs out of cash to pay its bills.
A23 Chase customer payments, delay paying suppliers, cut costs, or arrange an overdraft.