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Model Build – Cash Flow

Cash flow, cash is king. You can never, never run out of cash. You can have a business that's highly profitable but if you can't pay your staff next month then you don't have a business. Cash flow is probably the most important out of all the financial statements. A full set of financial statements would include a P&L, a cash flow and a balance sheet but quite often especially in a small business we really focus on the cash flow.

What we've done in our case study today, we've done a P&L, we've done a cash flow but we're not going to worry about a balance sheet it's less important in a model like this. Let's go ahead and put together our cash flow.

We've got our revenue, expenses and our profitability and from that we calculate our cash flow. You probably would put your cash flow perhaps on a separate page. This is a small model so we're going to keep it nice and succinct. You can very easily cut and paste it onto a new page if you prefer. Our opening cash is zero, that's one of our assumptions. We'll leave that blank as zero. Our revenue in the first month, we're going to get revenue of $7814. Our expenses are going to be our staff costs which is monthly. We pay our staff every month, so the staff work in the month and they get paid in the month.

The other costs are little bit different though. When it comes to rent and utilities, if you go back and look at your assumptions, we actually pay those quarterly, so we don't need to worry about rent and utilities at all for the first and second month and it's not until March that we actually need to pay those. We're going to link that through to here. We'll say March and go to your expenses here. I could just go 1 and then add it together but my SUM function is going to work quite well if I just go like that. I'm adding up my rent and utilities for January, February and March. I can do that every quarter but it's going to be a lot easier if I just go copy, paste. Now because I've used Ctrl C, Ctrl V that formula it’s still sitting on

my clipboard so I can go over to more and go Ctrl V again and then Ctrl V again and I can look and it's picking up K9 to M10. I go to my expenses and I can see it's picking up K9 to M10. Just a bit of a check to make sure that it's picking up the right cells.

Our consumables, we're ordering those each month so those get linked through to here like that. I can copy my revenue across and my staff costs because we get paid and we pay our staff on a monthly basis. So only the rent and utilities and our tax is going to be staggered as well. I can copy that across. I can add those up, total expenses here. Now our tax, I can actually pick that up from my P&L. Again my tax is only paid quarterly as well. I can say SUM of January, February and March just like what I did with rent, copy, Ctrl V, Ctrl V and Ctrl V. That's going to stagger my cash flow just a little bit.

My closing cash is going to be my opening cash plus my revenue less my expense and less my tax. I can then copy that across but I'm not quite finished yet because I need to calculate my opening cash in February, I need to link that through to there, so I can copy that over. Just take a minute to check your numbers and make sure that you're following the same methodology as what I've done.

So they are quite different from a modelling perspective. We've been doing the P&L and now we're doing the cash flow. The way that we model a P&L is that we've got income and we've got expense. At the end of the period that's it. We move onto the next one. Cash flow is quite different because you've got your opening amount, you've got your revenue, expenses, you've got whatever cash and you have a closing amount and that then becomes the opening balance which then leads through to your closing balance and so on. We call it a corkscrew account. It's quite different when you're modelling a cash flow than when you're modelling a P&L. The way that you put it together is going to be quite different.

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