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Professional Accountants

Strengthening the Capacity of Professional Accountants and their organizations in financial management.

[CASH AND BANK MANAGEMENT]

Understanding the NGO Cash and Bank management….

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CASH AND BANK MANAGEMENT

Cash and Bank management is crucial in any organization small, medium or big. There are two important aspect in cash and bank management: 1) having adequate control over cash on hand and at bank, 2) having sufficient amount of cash on hand and in bank to operate the business smoothly. To achieve these two components of cash and bank management, the organization may have policies and procedures on cash and bank (see the Professional Accountants resources on policies), forms for cash flow, cash counts, bank and cash reconciliations, bank and cash book…etc.

Professional Accountants provides some of the introduction to the cash flow and cash forecast with some forms as in the resources lists.

Introduction to Cash Flow

1. Introduction

The cashflow forecast (or cash budget) is based on the income & expenditure and capital budgets for the organisation. It is used by managers to monitor the movement of cash through the organisation.

Whereas the income and expenditure budget shows whether the organisation is covering its costs over the whole year, the cashflow forecast shows whether it has sufficient cash in the bank to meet all of its payments needs as they arise.

The cashflow forecast attempts to predict the flow of cash in and out of the organisation throughout the year by breaking down the budget into smaller time periods, usually one month. This helps to identify likely cash shortages and allows avoiding action to be taken such as:

- requesting donor grants early;
- delaying payment of certain invoices;
- delaying some activities; or
- negotiating a temporary overdraft facility.

The cashflow forecast is also useful where the organisation maintains substantial cash reserves which need to be invested wisely to maximise investment income.

2. How to prepare a cashflow forecast

To prepare a cashflow forecast, you will need all of the organisation's activity plans and budgets for the year. This exercise is best completed using a computer spreadsheet such as Excel.

For each item of income and expenditure on the budget, you need to predict and plot on the forecast sheet when cash will come in and need to go out of the organisation. This is clearly dependent on when activities are planned to take place. Some activity is more predictable than others.

- Some transactions are monthly, e.g. salaries, rent, utilities
- Some transactions are annual, e.g. insurance, audit fees
- Some transactions are scheduled, e.g. AGM, training courses, donor grants
- Some transactions are unpredictable, e.g. vehicle repairs.

Once the budget has been broken down into each month based on the activity plans, it is possible to calculate the net cash flow: i.e. whether there is more cash coming in or going out, or vice versa. It is usual to also include an estimate of any bank balances held as reserves as this will help manage our cash flow.

Tip: When putting your cashflow forecast together you do not need to include non-cash transactions such as depreciation costs and donations in kind.

Cashflow Forecasting

Managers use a 'cashflow forecast' (or cash budget) to monitor how much cash they have. It is based on the income & expenditure and the capital budget (if you have one) for the whole organisation. Whereas the other budgets show whether the organisation can cover its costs over the whole year, the cashflow forecast shows whether it has enough cash in the bank to meet all of its payments as they arise every week or month.

The cashflow forecast predicts the flow of cash coming in and going out of the organisation throughout the year by breaking the budget down into smaller time periods, usually months. This helps to identify if there is ever a time when cash might run short. It allows managers to take avoiding action, such as:

- requesting donor grants early;
- delaying payment of certain invoices;
- delaying some activities; or
- negotiating a temporary overdraft from their bank.

The cashflow forecast is also useful where the organisation maintains substantial cash reserves that need to be invested to maximise investment income.

Eight points to consider when preparing a cashflow forecast:

1. Cashflow forecasts are not simply the budget broken down into 12 equal instalments - you need to know when specific activities will take place. E.g. for a training project, when will the courses take place, when will costs have to be paid and will the course fees be paid in advance?
2. Expenses must be entered on the cashflow forecast when the cash is expected to leave the bank. So an invoice for January's electricity will probably be received in February and paid in March.
3. Some payment are paid monthly, such as salaries. But don't forget that deductions. such income tax, are often paid to the authorities the month after salaries are paid, or in some cases paid annually.
4. You need to take account of payment terms and income schedules. E.g. in some countries, auditors require a 50% deposit of the audit fee before the audit and the rest follows after the report is filed; so although this is an annual activity the actual cash movement is affected by payment terms. Similarly, grant schedules dictate the inflow of cash from donors.
5. For unpredictable expenses – e.g. equipment repairs – it is best to put a monthly or quarterly sum.
6. Obvious but easily forgotten: you exclude non-cash transactions from the cashflow forecast (e.g. donations in kind or depreciation) so if these are on the budget, they have to be left off the cashflow.
7. If there is not enough money in the bank to pay for project activities, delays will follow and donors will get upset – so cashflow forecasting is really important!
8. For good cash and financial management, cash reserves are essential as there will always be times when grants are delayed or unexpected expenses occur.