

Overview

This standard is for entrepreneurs who need to manage cash flow in their business. Being able to predict and control money going in and out at different times and its impact on your activities is critical to assessing the financial health of your business. It can make the difference between a business that survives and one that fails. Managing cash flow involves setting cash flow targets in accordance with the financial plans of your business, producing regular cash flow forecasts, identifying any gaps between income and expenditure and taking steps to control any shortfall that is likely to occur.

You might do this if you are:

1. self-employed;
2. setting up a business or social enterprise;
3. reviewing the financial planning and viability of your business or a social enterprise;
4. trying to increase the profitability of your business or a social enterprise.

Performance criteria

You must be able to:

1. work out what costs and bills are involved in your business
2. set cash flow targets against your financial plans for your business
3. work out when, during each accounting period, different types of costs need to be paid
4. identify when cash will flow into and out of your business during each accounting period
5. monitor cash inflows against outflows
6. forecast or identify any cash shortfalls
7. plan the actions that need to be taken to address any cash shortfalls
8. identify where cash comes from and monitor how it is used in your business
9. work out what money is available at any one time
10. chase any outstanding debts, where these are identified
11. control your stock orders that may affect your cash outflows
12. set your invoicing and payment terms to ensure your customers pay you on time
13. check the effect that the timing of inward and outward payments may have on cash flow
14. control sources and use of cash where appropriate
15. use debt factoring and invoice discounting, where possible
16. improve your cashflow by borrowing money or investing more money into the business
17. increase your sales and profitability to improve cash flow, where possible
18. produce cash flow forecasts at set times that are suitable for your business
19. source information and financial advice when required

Knowledge and understanding

You need to know and understand:

Cash flow

1. the costs and bills associated with your business activities
2. the cashflow targets and how these link to your business financial plans
3. the requirements for forecasting cash flow
4. how to prepare the cash flow statements and forecast possible high and low cash flow rates
5. how to monitor cash flow by keeping day to day records and bank statements
6. how to choose the timescales for financial forecasts
7. the methods to use to forecast business income and spending
8. the frequency of cash outflows and their amounts
9. how the timing of cash receipts and spending affects cash flow
10. how to find out what funds will be spent when starting and running a business
11. how to control sources and uses of cash, such as moving cash between accounts, buying and selling stock, keeping the numbers of creditors and bad debtors to a minimum, managing payment to creditors, paying tax, buying and selling assets, and short-term sales and pricing policies
12. the factors that may affect the cashflow, such as not meeting agreed delivery times, not following laws or regulations, terms of payment, penalties for non-completion or breach of contract and damages for non-acceptance of goods
13. the actions to take where shortfalls between cash inflows and outflows are identified
14. the methods of improving your cashflow, such as using debt factoring and invoice discounting, increasing sales and profitability, exploring new markets, reducing the

stock orders

Information and advice

15. the sources of information and financial advice

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