

What is Cash Flow Forecasting?

Worksheet

Cash flow forecasting estimates ending cash as: $\text{Ending Cash} = \text{Beginning Cash} + \text{Projected Cash Receipts} - \text{Projected Cash Disbursements}$, usually built month by month over a budget period.

$$\text{Ending Cash} = \text{Beginning Cash} + \text{Inflows} - \text{Outflows}$$

Questions

1. What does a cash flow forecast primarily predict?

- A) Net income
- B) Future cash inflows and outflows
- C) Stock price
- D) Tax liability

2. Beginning cash \$8,000, receipts \$20,000, disbursements \$25,000. Ending cash?

- A) \$3,000
- B) \$13,000
- C) \$53,000
- D) \$3,000

3. A negative forecasted ending cash balance signals the need for

- A) More sales tax
- B) Short-term financing
- C) Higher depreciation
- D) A stock split

4. Why is cash flow forecasting different from the budgeted income statement?

- A) They are identical
- B) Forecasting ignores revenue
- C) The income statement uses accrual accounting, not cash timing
- D) Forecasting is only for taxes

5. Beginning cash is \$10,000. Projected receipts for the month are \$50,000, and projected disbursements are \$45,000. Forecast the ending cash balance.

6. A company forecasts a cash shortfall: beginning cash \$5,000, receipts \$30,000, disbursements \$40,000. Find the ending balance and determine if financing is needed.

7. Using last month's ending cash of \$15,000 as this month's beginning cash, with receipts of \$60,000 and disbursements of \$52,000, forecast the next ending balance.

8. Define: What is cash flow forecasting?

9. Define: What is the cash flow forecast formula?

10. Define: What happens if the forecasted ending cash is negative?

Answer Key

1. B) Future cash inflows and outflows - It projects cash receipts and disbursements to estimate future cash balances.
2. A) $\$3,000 - 8,000 + 20,000 = 25,000$
3. B) Short-term financing - A cash shortfall means the company must borrow or arrange financing to cover it.
4. C) The income statement uses accrual accounting, not cash timing - Cash forecasts track actual cash movement, while the income statement follows accrual accounting rules.
5. $EC = BC + CR - CD$
 $EC = 10,000 + 50,000 - 45,000 = \$15,000$
6. $EC = 5,000 + 30,000 - 40,000 = \$5,000$ Since ending cash is negative, the company needs \$5,000 of short-term financing.
7. $BC = \$15,000$ (prior ending cash)
 $EC = 15,000 + 60,000 - 52,000 = \$23,000$
8. Predicting future cash inflows and outflows to determine expected cash balances and financing needs.
9. $Ending\ Cash = Beginning\ Cash + Cash\ Receipts - Cash\ Disbursements$.
10. The company anticipates a cash shortfall and must arrange short-term financing, like a line of credit.

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