What is Cash Flow Budgeting?

Worksheet

Cash flow budgeting means monitoring your income and expenses month-by-month to ensure cash is always available for bills, payroll, and strategic investments — not running out unexpectedly.

Questions

1. Income 10K, expenses7K. Net cash flow?

A) $10K
B) $7K
C) $3K
D) −$3K

2. Your business shows 50K profit but only20K cash left. Why?

A) Accounting error
B) Inventory/receivables/loan repayment timing
C) No reason
D) Profit = cash always

3. Expected income $5K but arrives 60 days late. Immediate action?

A) Wait
B) Cut expenses or arrange short-term financing
C) Ignore
D) Reduce payroll

4. Variable expenses are 1K−2K/month. How to budget?

A) Ignore variation
B) Budget the high-end ($2K) to avoid shortfalls
C) Budget the average
D) No budget needed

5. Freelancer forecast: 4,000 income,2,500 expenses in January. Will cash be sufficient?

6. Small business: Jan income 8,000, expenses9,500 (includes $2K supplier payment due next month). How bad is the shortfall?

7. Household income: 6,000/month. Expenses: fixed3,500, variable $800–1,500. Budget range?

8. Define: What is cash flow budgeting?

9. Define: Why forecast cash flow?

10. Define: Difference between profit and cash flow?

Answer Key

1. C) $3K — Net = 10K −7K = $3K surplus.
2. B) Inventory/receivables/loan repayment timing — Profit (accrual) ≠ cash (payments). Unsold inventory, unpaid invoices, or debt repayment explain the gap.
3. B) Cut expenses or arrange short-term financing — Cash forecast 60+ days ahead; line of credit, delayed payments, or temporary cuts bridge the gap.
4. B) Budget the high-end ($2K) to avoid shortfalls — Budgeting the worst case ($2K) ensures you always have cash; any month under budget is a win.
5. Net cash flow = Income − Expenses = 4,000 −2,500 = 1,500 surplus Yes, cash is sufficient. Invest or save the1,500.
6. Net cash flow = 8,000 −9,500 = −1,500 (deficit) Gross shortfall:1,500 Solution: Draw from reserve, delay supplier payment, or negotiate extended terms.
7. Best case: 6,000 −4,300 = 1,700 surplus Worst case:6,000 − 5,000 =1,000 surplus Budget range: 1,000–1,700 buffer monthly
8. Forecasting and tracking all income and expenses to ensure you have cash for bills and obligations each period.
9. To anticipate shortfalls, plan investments, and avoid running out of money unexpectedly.
10. Profit = revenue − costs (accrual); cash flow = actual money in/out (cash basis). One is timing.