

## Chapter 12- Cash Forecasting

Cash forecasts are the most important tool for monitoring and controlling corporate cash. Without them, good cash management is simply impossible.

1. Cash forecasts drive the short-term investing and borrowing strategies
  2. The forecast is an important input into short-term financial policy decisions, including disbursement policies, credit terms, and bank selection.
  3. Cash forecasts function as a control device.
  4. Effective risk management is impossible without forecasts of the cash flow effects of interest rate changes, commodity price changes, and foreign exchange rate changes.
- Cash forecasting is still considered to be one of the most inefficient parts of the cash flow process because of a notable lack of integration between operating units and their databases and the amount of labor-intensive administrative work involved in developing accurate forecasts.
  - The forecasting process involves the company in anticipating possible futures and preparing for them.
  - Most important cash forecast from a top management perspective is the monthly cash forecast.
    - a. The typical billing and payment cycle in most industries is monthly
    - b. The monthly interval is generally thought to be adequate for anticipating funding requirements.
    - c. Alerts management to threats to organizational stability and survival



**Cash budget:** is a document showing anticipated cash receipts and disbursements for a future period, usually one year. This cash budget is formulated to be consistent with the company's operating budget, which specifies planned sales and operating expenses.

### Forecasting Philosophy

1. Number and type of forecasts: companies may have up to three types of cash forecasts: short-term, intermediate term, and long-term.
2. Expenditure on forecasts
3. External vs. internal forecasts:
4. Quantitative vs. judgmental forecasting

<u>Simple Cash Forecasting Model</u>	<u>Modified Accrual Technique</u>
Cash receipts	$C = NI + NC - CA + CL$
- Cash disbursements	
= Cash flow	C= Cash flow
+ Beginning cash	NI = Net income
= Ending cash	NC= Noncash chargers
	CA = Current asset change
	CL = Current liability change

