

## Smart Cash Flow Forecasting

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Financial executives and managers use cash flow forecasting as a tool to manage their business and project investment rates of return. In a “normal” business environment, often they run forecasts quarterly or annually and operating history is often a good guide. But in a “COVID-19 World,” cash becomes dear and there’s a domino effect.

In addition, many executives are finding it difficult to forecast the duration of this crisis and its tail. As financial professionals know, revenue under accrual accounting does *not* necessarily translate into cash. And of course, an organization has more control over when it times its payments than when its customers pay.

During a crisis, it’s even more prudent to protect your cash. Be more conservative than usual with paying your bills and assume your customers will delay payment to you. Take extra steps to control your cash to avoid going into default on your debt and other obligations.

Consider these action steps to create a dynamic cash flow forecast to help you manage through these challenging times and create positive working capital:

1. **Analyze Your Cash Flow Forecast.** Often, a monthly forecast is sufficient, but under a potential “cash squeeze,” a weekly or even daily forecast could be more valuable.
  - If you create a monthly forecast, you can check your demand deposit account (DDA) balance daily to determine whether to withhold payments. Adjust your forecast to take into account deferring payment of expenses, which impacts your cash balances.
  - In your forecasting spreadsheet model, create at least two tabs – one for cash inflows – collections from customers and other sources; and one for cash outflows – costs and expenses. Often, it’s helpful to create additional tabs for more detailed categories – these could include salaries and benefits; and capital expenditures (CapEx).
  - Each column should be a time period, for example monthly, weekly, etc.
  - Each row should be an income or expense category – cash inflow or outflow.
2. **Start with Your Current Cash Balance.** This includes your liquid assets: cash and unrestricted funds. The goal is to maintain a positive cash balance and positive working capital.
3. **Consider Suspending “Automatic Payments”** to increase your control over your cash outflows.
4. **Establish a Separate Demand Deposit Account for Payroll** so you can continue to fund payroll and maintain control over this key function.
5. **Estimate Your Revenue in Light of COVID-19.** The virus impacts industries and businesses differently and to varying degrees. Will business volume shrink and, if so, by how much?
  - Consider the change in business volume resulting from reduced operating hours and closures to enable Social Distancing.
  - If you run a retail operation, what’s the potential impact of reduced operating hours? Does, for example, a supermarket’s revenue change when they allow only ten people to enter the store at a time?

- In the hospitality industry, restaurants have closed or converted to takeout and delivery only. What percentage of your business was lost or could be lost due to the prohibition on dine-in activity? If you maintain your staff, what is the cost of salaries and benefits?
  - Conferences and other events have been cancelled across the world. Revenue has evaporated.
  - Human Services Agencies and Health Research Organizations may also experience grant and contract funding delays or cutbacks because government funding sources have less tax revenues or are operating with reduced staff. In addition, organizations have canceled annual dinners and fundraising events that would have generated cash to fund programs.
  - Private equity, venture and hedge funds collect management fees that are typically based on a percentage of fund assets under management (AUM). If dividends and capital gains distributions are delayed or canceled, or AUM has declined, management fees are likely to decline.
6. **Convert Accrual Financial Statements into Cash-Based Financial Statements.** If you follow accrual accounting, estimate the likely timing of cash collections.
- Calculate your conventional accounts receivable collection period. Is it 30, 60, 90 days, etc.?
  - Run this analysis for each customer, tenant, grantor, payor, etc. Depending on your industry, list the potential impact of the coronavirus on each of your customers.
  - Make adjustments to your projected cash collections if your customers slow payment to you.
7. **Analyze Your Expenses in Detail.**
- Run a detailed general ledger for the past 12 months. If you use QuickBooks, for example, print out the “Profit and Loss Detail.”
  - Note any seasonality of your business and changes in cash flow throughout the year.
  - Some expenses are ongoing – for example, monthly rent and utilities. And some are more important than others. Other expenses are variable and/or discretionary.
  - Are you facing increased costs due to cleaning and sanitizing your premises more frequently and more thoroughly? Will you have to purchase masks, gloves and “shields” to enable Social Distancing for the cashiers and customer service team members?
8. **Make a Vendor List and Prioritize Each Vendor.**
- Note the vendors you paid last year. Add the new vendors.
  - In QuickBooks, you can run a “Vendor Report.”
  - Some goods and services are more critical to your business’ operation than others.
    - Which goods and services are vital to the continued operation of your organization?
    - Which are helpful but not critical?
    - Which are important but not time-sensitive?
  - Rank each vendor and service regarding whether you can defer payment or eliminate a purchase. It may be possible to downsize a service plan or program. In the event your cash balances and cash flow deteriorate, you’ll have an initial game plan.
    - Given a limited amount of cash on hand, which vendors would you pay now? Which would you defer?
    - Should you consider making partial payments?
    - For more techniques to conserve cash, see our recent Thought Leadership article, [How to Conserve Cash and Create Liquidity in Light of COVID-19](#).
9. **Analyze Your Tax Position and the Timing of Any Tax Payments Due or Expected Refunds.**
- **Determine the optimal time to file your 2019 income tax returns.** If you have not filed your 2019 income tax returns and are entitled to a refund (including under the new rules of the CARES Act), expedite your filing. If you owe money, consider deferring your income tax payment until July 15, 2020. Collaborate with your tax advisors.
  - **Recalculate your 2020 forecast taxable income and, therefore, estimated tax payments.** Defer estimated tax payments for the first quarter to July 15, 2020.

10. **For CapEx, Prioritize Your Progress Payments.** Review outstanding purchase orders to determine the requirements to make progress and milestone payments. Analyze whether you can defer payment or, if necessary, modify your payment obligations or contracts. Adjust your cash flow forecast accordingly.
11. **For Employee Salaries and Benefits, Analyze Your Business Go Forward.**
  - If you have flex staff or independent contractors, analyze the costs against projected revenues and cash collections.
  - Consider suspending a “third shift.”
12. **If You Are Considering Layoffs, Consider Severance Payments and Any Impact Relating to Loans Potentially Available to You from the CARES Act.** Loan forgiveness under the Paycheck Protection Program is dependent on whether you retain your employees and other factors including salary reductions. Estimate severance requirements and costs if you are considering laying off employees.
13. **Make a List of Your Sources of Cash.** Take into account:
  - Cash on hand – money in the bank.
  - Collections of accounts receivable and, for example, rental income if you are in the real estate business and investment income.
  - Investment income – collection of dividends and interest income and capital gains distributions may be delayed.
  - In the lending business, borrowers may defer paying their debt service.
  - Sources of liquidity, for example, unused bank lines of credit.
  - You could delay paying estimated taxes although this is likely to result in interest and penalties if you delay past June 15, 2020 (second quarter) or July 15, 2020 (first quarter).
  - Another source of financing could be a new line of credit or loan. But, typically in a crisis new sources of financing are more difficult to obtain. Consult with your advisors and lenders whether you should draw down on your lines of credit now to increase your cash on hand and financial flexibility.
  - Which sources of funds can you reasonably access today, tomorrow, next week, etc.?
  - Encourage cash sales (even if you have to give a discount). Although, health officials have recommended that people avoid handling cash to reduce the risk of transmitting the coronavirus.
  - Consider adding a credit card payment alternative if you don't have one already. Typically, credit card processors pay merchants one to two days after the sale. This could accelerate your cash collections, despite the credit card discount and merchant fees.
14. **Analyze New Sources of Liquidity – Namely SBA Economic Injury Disaster Loans (EIDL) and SBA Paycheck Protection Program (PPP) Loans under the new CARES Act.** Each has its own terms and conditions. And some offer the potential for loan forgiveness including Paycheck Protection Loans; but be sure to gain an understanding of all the terms and conditions before you take action and make changes to your operations – in particular actions relating to laying off employees; reducing employee salaries; and how you use the proceeds from any SBA loan.
15. **Use Credit Card Loans and Advances Cautiously.** Keeping your credit card lines open could provide cash; although these advances are typically very costly. To increase your line availability, reduce your costs and expenses and credit card spending.
16. **Calculate Your Projected Ending (end of period) Cash Balance.** This would be the projected “bottom line” in your spreadsheet model.
17. **Adjust Your Payment Schedule to Keep Your Cash Balance Positive.**

- When you accelerate or delay a cash payment: in your spreadsheet, move that amount into the previous or subsequent column to reflect the time period in which the cash activity takes place.
- Document your assumptions for each scenario in terms of adjustments to headcount, sales levels, payment timing, changes in costs and expenses, etc. This will enable you to link the financial outcomes to the specific actions your organization took and what actions you may want to take next and when.

**18. Create Several Cash Flow Forecasts – Consider Different Scenarios.**

- Estimate the duration of the coronavirus – perhaps one month, two, three or six.
- In addition, consider “what if” scenarios, for example, when your operations (sales) will ramp up to the “old normal.” Could there be a “new normal”?
- Once business activity begins ramping up, how long will that take to generate cash for your organization?
- What could be the potential cash flow impact on your business?

**19. Stress-test Your Cash Flow Forecasts.** Run multiple scenarios, for example “best case,” “likely case,” “cash squeeze case” and “dire straits.” This will help you get a handle on your organization’s potential cash flow under different outcomes. Then you can design a spending plan.

**20. Adjust Your Cash Flow Forecast Daily in Light of the Day’s Cash Flow Activity.** As applicable, reprioritize your accounts payable and which vendors you will pay and which you will defer. As time passes and you see the impact on your business and the results of your efforts to manage your working capital, continually refine your plan.

**21. Consult the Experts.** Meet with your advisors, credit providers and investors to manage your financial obligations and commitments.

Visit our [COVID-19 Resource Center](#) for more news and insights on related topics, including [President Signs CARES Act](#).

For additional information on Disaster Loans, contact the SBA disaster assistance customer service center. Call 1-800-659-2955 or e-mail [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov) or, visit [www.sba.gov](http://www.sba.gov).

For additional information on developments regarding payroll tax relief, call your payroll service or visit [ADP’s website](#).

**Contact Us**

PKF O’Connor Davies can help you prepare your company and the documents necessary to obtain loan financing. We can also help you restructure your loans and business. For more information, please contact either of the following:

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