

Producing a cash flow forecast

The cash flow forecast is an important document as it assists you in monitoring your firm's cash which will be critical to its viability. A good cash flow forecast should include the following:

- The start-up money that is available to the firm. This is important as there will need to be sufficient to ensure the firm can meet its expenses during the initial months when income is likely to be lower.
- It will cover 13 months. This is important as it ensures that the firm plans and has sufficient funds to cover the regulatory fees and other annual costs that will need to be paid at the start of the subsequent year.
- It should break the income down into income streams, so it is easier to see which areas of the firm's legal service provision should be providing what income on a monthly basis.
- Costs should be broken down sufficiently so that it is clear from the description in the forecast exactly what costs are covered.

When entering financial data into your cash flow forecast please consider the following points:

- Firstly, you need to be realistic. Including overly optimistic income figures will not help you in the long run. So please calculate your income carefully based on realistic fees and the number of matters your firm is likely to obtain and deal with.
- Remember income will often lag significantly behind when the work is undertaken, particularly where firms do not hold client money. As a result, income will often be low in initial months so remember to factor this in.
- Not all costs can be paid monthly. For example, the annual Entity Authorisation fee, the contribution to the Compensation Arrangements, and fees for an Accountant's Report. So please reflect this in the cash flow projection.
- Think carefully about the expenses and do not underestimate them:
 - Whilst much of your correspondence will be by email, there will on occasions be the necessity to use post.
 - Have you thought about the cost of safe storage or disposal of confidential waste?
 - Do you have arrangements in place for IT support and equipment repair? Remember you need to ensure data protection at all times.
 - Where you are using software please ensure that you are licensed to use it for business use.

Going forward you should compare the figures in your cash flow forecast, to the actual figures for both income and expenditure. This will allow you to monitor variance. The figures for which should appear in your monthly accounting records.