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## **Managing Cash Flow for Smarter Financial Decision Making**

### **Interactive Cash Flow Activity with Scenarios**

#### **Directions**

Download the following Microsoft Excel file to your laptop:

- Interactive Cash Flow Activity.MASTER.no scenarios

Open the file, “Interactive Cash Flow Activity.MASTER.no scenarios”. Copy the worksheet titled MASTER to a second worksheet. To do this:

- 1) In the worksheet tab, MASTER, right click with your mouse.
- 2) Select Move or Copy
- 3) The MASTER sheet should be highlighted. Put a check in the “Create a Copy” box and select “Okay”.
- 4) You now have a copy of the MASTER sheet called MASTER (2). Rename the sheet, SCENARIOS by right clicking in the SCENARIOS tab and selecting “Rename.” Type in the new name and hit enter.

**Take several minutes to familiarize yourself with the SCENARIOS worksheet; this is the one you will be working in. Retain the MASTER as just that, the MASTER.**

- This is a 12-month Cash Flow Projection for ABC Childcare;
- Make note that line items are in Column B, months are in Row 2;
- Income and Expense is totaled in each month in Rows 9 and 28, respectively;
- There is a beginning cash balance of \$6,000 in Column C, Row 30 (Cell C30), so at the start of this projection that is how much money ABC Childcare has in the bank.
- There is an ending cash balance of \$16,618 (Cell N32); this is the amount of cash ABC Childcare projects will be in the bank at the end of the year.

- Review the Net Cash Flow (Row 31) and Closing Balance (Row 32) each month. Are there any months in which ABC Childcare is projecting a negative cash balance in the bank? Any month in which ABC Childcare anticipates losing money from its operations? Keep these considerations in mind as you review the scenarios below.

Starting on the next page are 5 separate scenarios. The scenarios require you to make business decisions as the year progresses. A decision cannot be reversed once it is made. For example, if you choose to give staff raises in February, you cannot take them back in April. Each decision you make will affect subsequent decisions.

As you make your decision, adjust the Excel spreadsheet accordingly; if you give raises in February then Wages in that month and each subsequent month must increase by \$250. You can use a calculator to get new totals. Using the raises example, starting in February wages must increase by \$250 per month. You can use the calculator to add \$250 to February's wages of \$6,250 and enter \$6,500 in cell D26, repeating that process for each month after; or if you are comfortable using Excel you can input a formula in D26 to do the math and copy that formula to the other affected cells; be mindful that there are months where the current wage is different; this may affect your formula.

Each financial decision you make will affect cash flow – some adjustments will result in positive changes to cash flow, some will result in negative changes. Keep an eye on how cash flow changes after each adjustment:

- Review the month you made the change, subsequent months, and the year end - did cash go up or down?
- Are there particular months you need to worry about?
- Reflect on why you are making the decisions you make and how the state of cash flow might be driving your decisions.
- Keep notes in the excel spreadsheet or on a pad of paper on how cash flow is changing, reflect on those changes, and the drivers behind your decisions.

### **Scenario 1 – February**

Your staff want a pay raise. You have three options:

1. Pay the \$250 extra per month.
2. Do nothing but enrollment will go down 10% for three months.
3. Finance the pay raise by cutting the professional development budget to 0.

Employees will be demotivated leading to future enrollment falling by 5%

### **Scenario 2 - March**

OPEC is holding onto oil supplies for some political reason and there has been an oil spill in the gulf coast. Gas and heating oil prices have risen drastically. The additional expense has increased by costs by \$500 a month for the rest of the year.

Your van has broken down and you have three options:

1. Buy a new van for \$10,000 via an auto loan with interest rate of 3.15% (assume monthly loan payment of \$265 and monthly interest payment of \$30)
2. Fix the van for \$3,000 (Allocate to Repairs)
3. Lease a van for \$275 per month

### **Scenario 3 - June**

Tuition has increased by \$2000 each month with the addition of several new enrollments, but what to do with the extra cash.

1. Nothing
2. Raise staff wages by 3%; you chose not to raise them in February and enrollment and morale have suffered.
3. Invest in new playground equipment for the center at a cost of \$3,800; current equipment is near the end of its lifespan.

### **Scenario 4 - August**

The contractor you need is finally available to repave the driveway and parking area around the center. He knows he is not busy for another few weeks so offers you a 15% discount if you start the project now. You need to put a 20% deposit down and pay off the remainder within 30 days of the project start of August 20. The estimate minus the discount is \$9,800.

1. Finance the expenses with a loan
2. Finance the expenses with your current cash or overdraft
3. Turn down the contract

### **Scenario 5 - October**

It's been one thing after another this year; you decide to go on an extended holiday.

1. Hire a substitute teacher to ensure adequate coverage while you are away.  
Increase wages by \$1,507 for the month.
2. Do nothing. 😞