What is Cash Flow?

Speaker: Along with budget, cash flow is also important. What is cash flow?

Audience: The liquidity that you keep.

Audience: The availability of money when it is needed.

Speaker: How will you find out when the money is needed?

Speaker: From the budget.

Audience: From your past experiences on how you conduct your day to day expenses.

Speaker: A broken down budget will give cash flow requirements. For e.g. those of you who make monthly or quarterly budgets will know exactly how much money you need for that given period of time. This ensures that the liquidity is maintained and at the last quarter only it will become zero. Out of these two, whichever is negotiated with the donor can be used and worked out. During the negotiation, you can always mention to the donor the amount you will need for start-up which can be adjusted during implementation.

Audience: Unfortunately for organizations working with establishments like the government and others, the scheduled activity variances are so high that it becomes humanely impossible to factor in these aspects, so in such a scenario how does one manage the cash flow? Are there any better ways to manage these volatilities of scheduled activities getting delayed?

Speaker: In such circumstances you should have a dynamic document, one that can be re-adjusted at any time given the situation. In the 1st quarter when you implement activities, you also need to make a note of activities that need to be shifted to the next quarters. When you do a review at the end of the 1st quarter or 1st month you will see these activities and move it to the next quarter accordingly. This will result in a rise of fund requirement for that particular quarter. If you have already received the money, it will appear as an opening balance in the next quarter. Hence this document also needs to be maintained as a review document or a monitoring document.

Speaker: Cash flow is a summary of cash inflows and outflows. It is always linked to the budget, so you cannot prepare the cash flow without the budget and you cannot prepare the budget without planning.

Speaker: Cash flow statement is a statement that indicates the ability of an entity to generate cash and cash equivalents. Advantages are that it provides information that enables users to evaluate the changes in the net assets, financial structure, etc.

Audience: Are in-kind supports supported in a budget?

<u>Speaker:</u> Yes, they are supported in cash equivalent form. Some donors would like it to stay outside the budget whereas some want show it as cash equivalent in the budget for monitoring and reporting purposes. This depends upon how you have negotiated.

<u>Audience:</u> What is best for the organization?

<u>Speaker:</u> Income Tax Act does not recognize non cash contributions, so when you file the returns non cash contributions have to be kept aside. From a project point of view, it is good to put non cash contributions as well to see how much project ownership is present, however with a rider. If we include it in the budget, you have to ensure it is close to reality otherwise it will be a complete abuse of the financial statement and will not yield proper figures. This includes cash in hand, cash in bank, short term highly liquid investments, etc. Frequent monthly projections are desirable. Disclosure may be made in financial reports regarding non cash components. Interest should be included too. Donor and local contribution - total and expected is also seen here. Estimated expenditure and program costs are also seen in this statement.