
Project On Cash Flow Statement: Analysis And Steps To Prepare

Project Cash Flow

Managing finances is critical to execute any work. One must know what is available in hand, how much is required to be spent, and the limitations. Efficient money management is the key to succeed in every project delivery to meet the customer need and generate profit to the organization.

The movement of finances in and out of any business is called cash flow. The money in the form of income becomes a positive and that which is spent out as expenditure is called the negative cash flow respectively. Cash flows are used not only to measure the present income and expenses but also to measure the future potential of the financial resources for the business.

What is the use of cash flow factors in the organization?

- It is used to evaluate the risks within a financial product such as evaluating default risk, matching cash requirements or re-investment requirements, etc.
- It is used to determine the project's rate of return or value, the flow of money into and out of the project is used in financial models to determine the net present value and the rate of return respectively.
- It also helps in determining the problems with the organizational liquidity factor. The liquidity is the amount of hot cash or the running money available for expenditure mainly operational ones. Being profitable does not necessarily mean that there is liquidity; the organization may fail due to a shortage of funds while being profitable.
- By accrual accounting standard the cashflow factor is used to evaluate the quality of the income. If the income consists of large non-cash items it is called low-quality cashflow.
- Accrual accounting concepts do not represent the economic realities of the company. For example, an organization may be notionally profitable but maybe generating less or little operational cash. And therefore in such cases, the organization may be required to go in for more debt by issuing shares or raising additional debt finance for raising the required operational cash.
- However, it is a subjective term and used as per the person's requirements. It can be used for measuring current income or to measure future profits. It can be represented as the total of all money involved so far or the subset of those funds. Enroll for the PMP certification course at StarAgile and become a certified project management executive.

Project cash flow is used to measure the outflow and inflow of money from the project to the organizations. It is not easy to do budgeting with the cashflows, if you are not experienced and do not have any knowledge of budgeting then the project is destined to be doomed. That is the reason the project cash flows are an important subject and you must know how to work on them. The inflow of cash is known as the revenue generated from the project. And the outflow of the cash is called the project expenditure. Register for the PMP training at StarAgile institute and learn the concepts of cash flow management in detail along with all roles of a PM.

If the inflow is more than the outflow for the project then it is called the profit and this must be the typical situation for any project. However, not all projects generate profits. The viceversa is called the loss for the project. Sometimes over the period the cash outflow and inflow are the same and this is the situation where the project has not attained any profit or loss. However, it is just the experience gained which will help in generating profit in the future project.

Project cash flow analysis

In this subheading let us discuss how the project flow analysis is done. The cashflow can be of three types and is found in the different stages of the projects. They are operational cashflow, financial cashflows, and investment cashflows.

- The operational cash flows are the ones that involve cash outflow/inflow in the form of day-to-day operations such as expenditure for raw materials, labor salaries, energy consumptions, etc.
- The financial cash outflow/inflow are the ones that are expenditure due to insurance of debt to equity etc
- The investment cash outflow/inflow is the ones that are related to the procurement of assets and capital expenditures such as building, equipment, tools, and machinery, etc.

The cash flows factors can be considered to calculate the parameters to measure organizational performance. A business's statement of cashflows is the net flow for that business or the organization. If the net flow increases then it is called positive net flow. If the net flow decreases then it is called the negative net flow. It depends on the project's results to have positive or negative cashflows. This net flow as discussed consists of three parameters such as operating, investment, and financial cashflows. Learn effectively the project management concepts and cash flow analysis by taking up the PMP course online at StarAgile.

Steps to prepare Project on cash flow statement

A projected cash flow statement is used in the project and is used to evaluate the cash outflows and inflows for an economic entity to determine how much, when, and for how long the cash deficits or surpluses will exist for that entity during the upcoming period.

Let us consider a template example on the cash flow sheet for a sample project.

The steps involved are

- Beginning of the cash balance---
- Total cash available---
- Total cash on the assets---
- Total cash on the operational items---
- Total cash on the payment of the term debt with interest---
- Other expenses and taxes---
- Total cash required---

Now cash available minus the cash required gives you the cash for the next project.

Concluding thoughts

As you have seen how the organization uses the Project on cash flow statement analysis and sample cash flow analysis. To do the cash flow analysis for the real projects and to learn more about the budgeting and cash flows techniques register for the Online PMP training at StarAgile. StarAgile institute is the training partner for the Project Management Institute (PMI) in delivering the PMP training online. StarAgile's training covers more on this topic and the hands-on provided by the training leverages one's skills and enhances the knowledge to do the real project management using the concepts of the cash flows analysis.