HOW TO CREATE A CASHFLOW FORECAST

One of the questions we're often asked is "how do I create a cash flow forecast?"

It's a very important part of financial planning for any business but for many start-ups, entrepreneurs or business leaders, accounting / finance may not be part of your background.

Not to worry - creating your own forecast is a simple process. And once you know how, it will be one of the most beneficial documents you will have to provide your business with the insight it needs to thrive.

First of all, let's discuss why a cash flow forecast is important.

In fact, it's not just important, it's essential. You need cash in the bank to pay the bills. Being aware of your business's cash flow will allow you to see if / when you may run out of money and therefore allow you to prepare ahead of time to mitigate this.

It can also provide the insight needed to learn that you need to cut overheads, require further investment, or spend more time generating sales.

On the more positive side of things, if your business is doing well and you're thinking about expanding (whether that be within new markets, new product ranges, additional services, or more), then an accurate cash flow projection will help you to know whether the time is right to take the leap forward.

Below we have put together four simple steps to help you get started with your cash flow forecasting:

1. SET A TIMEFRAME

Cash flow planning can cover timeframes from as little as a few weeks to months or even years. There's no 'right' answer here, but the advice we've been given and continue to give ourselves is to plan as far ahead as you can accurately predict.

If your business is well-established then your sales pipeline and data from previous years will help you create a predictable model. However, if you're a new business, you might not have a huge amount of data - so the larger that your cash flow forecast timeframe is the less accurate your predictions are likely to be.

NOTE: *Don't panic if you can't plan too far ahead. Your cash flow forecast can (and in fact, should) change over time. As both internal and external factors affect your business as time moves forward, you can update your plan.*

2. LIST YOUR INCOME

For each week or month in your forecast, list all the cash you've got coming in. It's important to ensure that you have one column for each week or month, and one row for each type of income.

Start with your sales, adding them to the relevant week or month. If you have them available, you might be able to predict this from your previous years' figures.

The key thing to remember here is that any figure you input into your forecast should be in the correct date column (week or month), ie: when the cash will actually be in your bank account; when you know that clients will pay invoices, or bank payments will clear.

Following sales, ensure that alternative forms of income are included, such as tax rebates/refunds, investment, grants, etc.

Finally, add up the total for each column to get your net income.

3. LIST YOUR OUTGOINGS

Having confirmed the money that is coming into your business, it's now important to understand the amount of money that is going out of it.

Similarly to how you set up your income list, for each week or month, make a list of all the money your business will be spending. As before, ensure each outgoing is listed on a new row.

While outgoings for each business will differ, below are some examples that may affect your business:

- Rent
- Wages
- Bills (ie: electricity, gas, wifi / broadband)
- Loan repayments, bank fees & charges
- Marketing / Advertising costs
- Tax

Finally, add up the total for each column to get your net outgoings.

4. CONFIRM RUNNING CASH FLOW

For each date column (week or month), take away your net outgoings from your net income.

This will tell you whether you have a positive cash flow figure (ie: there is more cash coming into the business than is being spent) or a negative cash flow figure (ie: this is more money being spent than is coming into the business).

From this point, you will be able to keep a running total, from month to month, or week to week, to help you better understand your cash flow forecast over time.

Too many negative weeks could mean trouble for your business, and you'll need to do some planning to ensure that you can meet your business's commitments (ie: paying wages, rent, etc.).

However, several positive weeks/months might signal that you've got money to expand or invest.

On top of the above, we are lucky enough to have been given a Masterclass on this very subject by an accountant (and BBN member!) Graham Gillen which can be seen in the Workshops section of the Workshops & Resources page of the BBN website exclusively for members. There is also a Cashflow Forecast Template available to download in the Resources section of the same page.