How to create a Cash Flow Forecast?

Description

Understand and Manage Your Business Cash Flow

Are you unsure whether your business will have enough money to pay its bills, suppliers, employees, or taxes in the coming months?

Creating a cash flow forecast helps you understand when money enters and leaves your business, identify potential cash shortages, and make better financial decisions.

Whether youâ??re starting a business, preparing for growth, or experiencing financial uncertainty, a cash flow forecast gives you greater control over your finances.

What Do You Want to Achieve?

Your goal: Create a reliable overview of your expected cash inflows and outflows so you can anticipate shortages, plan expenses, and maintain sufficient working capital.

When this job is completed, you should be able to:

- Understand your current cash position.
- Estimate incoming payments from customers.
- Forecast operating expenses and other payments.
- Identify potential cash shortages before they happen.
- Plan investments and major purchases.
- Make better decisions about spending and financing.

How to Create a Cash Flow Forecast: 6 Steps

Step 1. Determine Your Starting Cash Balance

Identify how much money your business currently has available.

Include cash in business bank accounts and other immediately accessible cash balances. Exclude unpaid invoices and expected future sales.

Output: Your opening cash balance.

Step 2. Estimate Your Cash Inflows

List all payments you expect to receive during the forecast period.

Examples include:

- Customer invoice payments
- Direct sales receipts
- Subscription revenue
- Loans and investments received
- Other incoming cash

Use expected payment dates rather than invoice dates.

Output: A monthly or weekly cash inflow forecast.

Step 3. Estimate Your Cash Outflows

Identify all expected business payments, including:

- Salaries and freelancer payments
- Rent and utilities
- Software subscriptions
- Marketing expenses
- Supplier payments
- Taxes and loan repayments
- Equipment and investments

Include the dates when payments are expected to leave your account.

Output: A cash outflow forecast.

Step 4. Calculate Your Net Cash Flow

Subtract your total cash outflows from your total cash inflows.

Net Cash Flow = Cash Inflows â?? Cash Outflows

Then calculate your closing cash balance:

Closing Cash = Opening Cash + Net Cash Flow

Use each periodâ??s closing balance as the next periodâ??s opening balance.

Output: Your forecast cash balance for each period.

Step 5. Identify Potential Cash Shortages

Review your forecast to identify periods when your cash balance may become too low.

Consider what happens if:

- Customers pay 30 days later than expected.

- Revenue falls by 20%.
- Operating expenses increase.
- A major customer cancels an order.
- An unexpected investment becomes necessary.

Output: A list of financial risks and potential cash shortages.

Step 6. Create a Cash Flow Improvement Plan

Identify actions that could improve your future cash position.

Possible actions include negotiating faster customer payments, reducing unnecessary expenses, delaying investments, adjusting payment terms, or arranging financing.

Update your forecast regularly with actual payments and revised assumptions.

Output: A practical cash flow improvement plan.

Example: Three-Month Cash Flow Forecast

Cash Flow Item	Month 1	Month 2	Month 3
Opening Cash	â?¬5,000	â?¬4,000	â?¬5,500
Cash Inflows	â?¬8,000	â?¬10,000	â?¬12,000
Cash Outflows	â?¬9,000	â?¬8,500	â?¬9,000
Net Cash Flow	-â?¬1,000	+â?¬1,500	+â?¬3,000
Closing Cash	**â?¬4,000**	**â?¬5,500**	**â?¬8,500**

In this example, the business experiences negative cash flow in the first month but improves its cash position over the following two months.

The forecast helps the owner see whether sufficient cash will remain available throughout the period.

Common Mistakes to Avoid

- Confusing revenue or profit with actual cash received.
- Assuming customers will always pay on time.
- Forgetting tax payments and irregular expenses.
- Overestimating future sales.
- Failing to update the forecast.
- Ignoring short-term cash shortages hidden by positive monthly totals.

How Do You Know Youâ??ve Completed This Job?

You have successfully created your cash flow forecast when you can answer these questions:

- Do I know my current available cash balance?
- Have I estimated expected incoming payments?
- Have I included all major outgoing payments?
- Can I see my forecast closing cash balance?
- Have I identified periods with potential shortages?
- Have I considered at least one downside scenario?
- Do I have a plan for managing cash shortages?
- Have I scheduled regular forecast updates?

Completion criterion: You have a working cash flow forecast covering at least the next three months, with expected cash movements, closing balances, and actions for addressing potential shortages.

Recommended Resources

Financial Plan Template
Organize your business finances, document financial assumptions, and support better financial planning.

Business Health Assessment
Evaluate the financial health of your business alongside other important business capabilities.

Personal Business Advisory
Get independent guidance on financial challenges, business priorities, and practical improvement opportunities.

Frequently Asked Questions

What is a cash flow forecast?

A cash flow forecast estimates how much money your business expects to receive and pay out over a future period, helping you anticipate its available cash balance.

How far ahead should I forecast cash flow?

A rolling 13-week forecast is useful for short-term cash management. A 12-month forecast helps with longer-term planning, investment decisions, and seasonal changes.

What is the difference between profit and cash flow?

Profit measures revenue minus expenses under accounting rules. Cash flow measures actual money entering and leaving the business. A profitable business can still run short of cash.

How often should I update my forecast?

Update your forecast at least monthly. If cash is tight or payment timing is uncertain, review it weekly.

Take the next step:

Create your first cash flow forecast, identify your biggest financial risks, and turn your findings into a practical cash management plan.

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