

How to create a Cash Flow Forecast

A Cash Flow Forecast is a powerful tool that can help business owners more effectively manage their business.

A Cash Flow Forecast is really like a roadmap for the cash that flows through your business – it will highlight for you where you have cash shortfalls and times when surplus cash will be available.

Just as you would not embark on a journey without some planning – so it is with the cash flow of your business. You need to know what is ahead so early action can be taken when needed.

To ignore it and simply push ahead and hope - is like trying to drive your car blindfolded – you are an accident waiting to happen!

So if you want to avoid a lot of stress and worry then it is a good idea to prepare a Cash Flow Forecast.

So how do you go about it?

Step 1 – Start with Expenses

A common mistake business owner's make when preparing a Cash Flow Forecast for the first time is to start by trying to determine their income – however in our experience this makes completion notoriously difficult!

We recommend you focus on the expense items first as this will reveal to you what you need to generate annually and monthly to breakeven – this then makes the exercise of forecasting income a whole lot easier!

Step 2 – Make it easy by downloading our Breakeven Analysis Tool

To make the task of identifying your expense items we recommend you download our [free Breakeven Analysis Tool](#).

First, complete the “Family Budget” section of the tool to understand what you need to draw in the form of a living wage to cover all your personal expenses and maintain the lifestyle you desire.

(It is important not to skip this step and simply estimate what you need – as in our experience these estimates can be out by as much as 50%!)

If you underestimate your requirements in terms of drawings – then this leads to unplanned withdrawals from the business cash flow leaving you short of the cash you need to run your business. It can also mean your pricing model will be incorrect!

Having calculated what you need to withdraw from the business in the form of a wage – then next step is to list all your business expenses.

(Although this part of the exercise may be a little more difficult for start up businesses – with a bit of research reasonable estimates of expenses and their timing can be established)

Important - As you record the business expenses, make a note of when you expect them to be paid (That is, not when due, but when you expect them to be deducted from your Bank Account)

Step 3 - Record the Expenses in the Cash Flow Forecast

The next step is to then record the expenses in the Expense section of the Cash Flow Forecast (Download the free template from our website) – remembering to record them in the month you expect them to be deducted from your Bank Account – not when they are due!

Cash Flow Forecast	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Total
Revenue from:													
Cash Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monthly A/cs - cheques received	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Credit Card Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Investment Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loan Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Expenditure by:													
(1) Fixed Costs													
Rent	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Insurance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Car Registration & 3rd Party	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Leasing and/or HP Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loan Repayments (P & I)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(2) Variable Costs													
Salaries - Directors/Owners	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Wages - Employees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Staff Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Raw Materials Purchased	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Purchase of other Supplies	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Motor Vehicle Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Office Supplies (stationery, etc.)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Postage, Couriers	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Telephones, Faxes, etc	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Utilities - Electricity/Gas/Water	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Commissions Paid	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Marketing & Promotion	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Travel & Accommodation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Legal Services	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Accounting	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Bank Fees & Charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Government Taxes & Charges	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income Taxes Payable	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Asset Purchases (Furn & Equip)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
To Cash Reserve	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenditure	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GST Payments													
	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenditure + GST	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Surplus or Shortfall (-)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cumulative Year-to-Date	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Bank Balance-Begin of Month	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Movement During Month	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Bank Balance - End of Month	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Key Points:

- Don't forget to record your current Bank balance in the section at the bottom of the Forecast
- Include all Bank interest and Loan Repayments
- If your Suppliers give you terms, record the payment in the month you expect the amount to be deducted from your Bank Account
- Include GST payments if you are registered for GST.

Step 4 – Record the cash you expect to collect from sales

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Revenue from:													
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Credit Card Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Investment Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loan Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
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Leasing and/or HP Payments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
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Total Expenditure	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GST Payments			\$0			\$0			\$0			\$0	\$0
Total Expenditure + GST	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
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Net Movement During Month	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Bank Balance - End of Month	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Record income from sales in the month you expect it to be credited to your Bank Account

Key Points

- Income is recorded when you expect the monies to be credited to your Bank Account – not when the actual sale is made. For example, if you provide 30 day terms and the sale is made in September – then you would record the collection in October
- Record Bank Loan proceeds in the month(s) you expect the loan to be drawn down.

Estimating future sales is never easy – but by knowing what expenses you need to cover as a minimum each month you will at least have a good starting point – a minimum sales target that you need to achieve.

Summary

Whilst initially preparing a Cash Flow Forecast may seem a little daunting, the reality is, if you follow the process outlined above, it is a relatively easy exercise.

If updated on a regular basis a Cash Flow Forecast can be a valuable tool to help you run your business – alerting you in advance of cash shortfalls and also highlighting when surplus cash may be available to allow you to take advantage of opportunities.

If you need to provide a copy to your Bank to support a loan application, it is worthwhile to have the Forecast checked by your Bookkeeper or Accountant.

(One benefit of preparing the Forecast yourself is that should the Bank have questions regarding elements it contains – you will know the answer!)

If you would like to learn more about how to effectively manage the cash within your business, consider enrolling in our **Decide Your Income Workshop** – this information packed workshop also includes a free mentoring session!

Bruce Hall
Director