# How to Prepare a Cash Forecast: A Step-by-Step Guide

A cash forecast is a financial projection that estimates your business's future cash inflows and outflows. It serves as an early warning system for potential shortfalls and a strategic tool for planning growth.

## 1. Develop Supporting Budgets

A robust cash forecast is built from the ground up by consolidating individual operational budgets. Before calculating cash flow, you must develop:

- **Sales Budget:** Estimate total revenue for the period. Note that "Sales" does not equal "Cash" until the money is collected. You must analyze your Accounts Receivable aging to predict when sales turn into cash.
- **Payroll Budget:** Calculate gross wages, employer taxes, benefits, and bonuses. Payroll is often the largest and most predictable cash outflow, but you must account for timing (e.g., bi-weekly vs. monthly payments).
- **Purchasing/Inventory Budget:** Plan for the raw materials or finished goods you need to buy to support the Sales Budget. This includes payment terms from vendors (e.g., Net 30 or Net 60).
- **Operating Expense (OpEx) Budget:** Include rent, utilities, marketing, and insurance.
- **Capital Expenditure (CapEx) Budget:** Plan for large, one-time purchases of equipment, vehicles, or technology.

## 2. Tools for Forecasting: Spreadsheets vs. Accounting Software

Choosing the right tool is essential for managing the complexity of multiple budgets.

### Advantages of Spreadsheets (Excel, Google Sheets)

- **Customization:** You can build highly specific formulas to model unique business logic or "what-if" scenarios.
- **Flexibility:** Easy to create custom visualizations and dashboards that combine data from non-financial sources.
- **Low Cost:** Most businesses already have access to these tools without additional licensing fees.

### Advantages of Accounting Software (QuickBooks, Xero, Sage)

- **Real-Time Data:** Automatically pulls in "Actuals" from your bank feeds and ledger, making variance analysis much faster.

- **Accuracy:** Reduces manual entry errors by automatically linking your Sales and Purchasing budgets to the cash projection.
- **Automation:** Can automatically generate "Accounts Receivable" aging reports to predict collection dates based on historical customer behavior.

# 3. Determine the Forecast Period

- **Weekly (13-Week Forecast):** The "Gold Standard" for liquidity management. It covers one full quarter and provides high granularity.
- **Monthly:** Better for high-level strategic planning and aligning with board reporting.

# 4. Step-by-Step Consolidation Process

## Step A: Set the Opening Balance

Start with your actual "Cash on Hand." This includes all cleared funds in your operating accounts, savings, and petty cash at the beginning of the first period.

## Step B: Project Cash Inflows (From Sales Budget)

Do not simply copy your sales forecast. You must account for **payment lag.**

- **Collections:** If your Sales Budget shows $100,000 in January but your terms are 30 days, that cash enters the forecast in February.
- **Non-Sales Inflow:** Include tax refunds, grant funding, loan drawdowns, or asset sales.

## Step C: Estimate Cash Outflows (From Expense Budgets)

Combine your supporting budgets into a timeline of disbursements:

- **Fixed & Payroll:** From your Payroll and OpEx budgets.
- **Vendor Payments:** From your Purchasing budget, adjusted for when invoices are actually due.
- **Taxes & Interest:** Tax payments and loan interest.

## Step D: Calculate the Net Cash Flow and Closing Balance

Use the following formula for each period:

1. **Net Cash Flow** = Total Inflows - Total Outflows.
2. **Closing Balance** = Opening Balance + Net Cash Flow.
3. The **Closing Balance** of Period 1 becomes the **Opening Balance** of Period 2.

# 5. Best Practices for Accuracy

## Perform Variance Analysis

Every week or month, compare your "Actuals" to your "Forecast." If your Payroll budget was

$50,000 but you spent $55,000 due to overtime, adjust future periods..

### Use Scenario Planning

Create three versions based on your Sales Budget:

1. **Base Case:** Realistic expectations.
2. **Worst Case:** 20 % drop in sales or supply chain delays increasing purchasing costs.
3. **Best Case:** Early collection of major receivables.

## 6. Summary Table Template

| Category | Week 1 | Week 2 | Week 3 | Week 4 |
|---|---|---|---|---|
| **Opening Balance** | $10,000 | $12,500 | $9,000 | $11,000 |
| **(+) Cash Inflows (Sales)** | $5,000 | $2,000 | $6,000 | $4,500 |
| **(-) Cash Outflows (Payroll/Purch.)** | ($2,500) | ($5,500) | ($4,000) | ($3,000) |
| **Net Cash Flow** | **$2,500** | **($3,500)** | **$2,000** | **$1,500** |
| **Closing Balance** | **$12,500** | **$9,000** | **$11,000** | **$12,500** |