PROFITARCH™

How to Create a Cash Forecast for a Small Business

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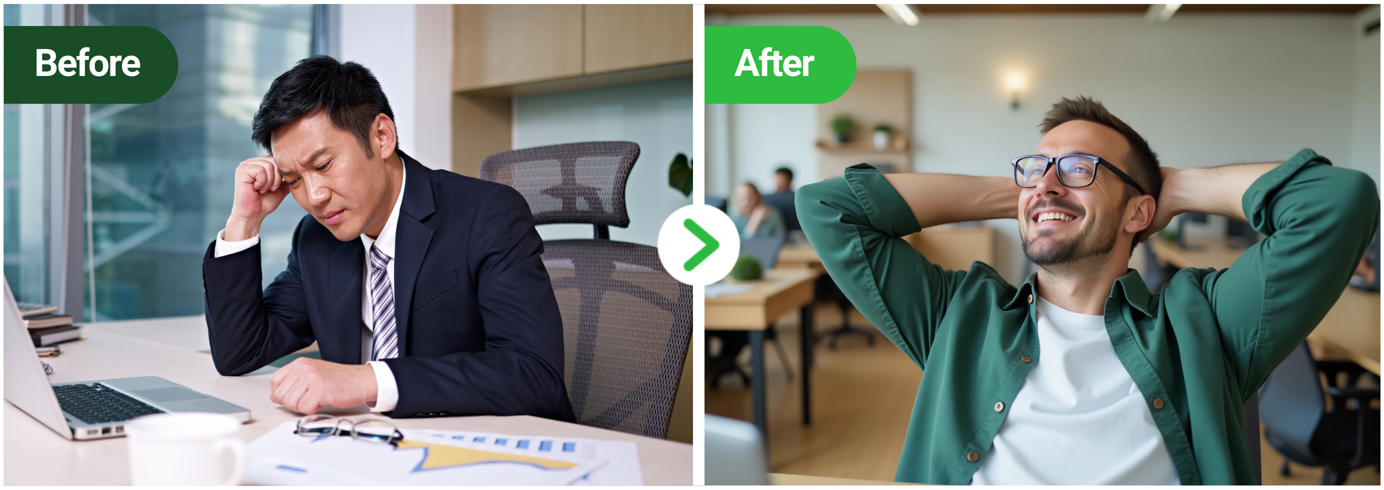
Disclaimer

There is a reason that the accounting profession exists. The purpose of this book is not to teach you everything there is to know about accounting or bookkeeping. The purpose is to educate you, so you are more capable of working with and understanding your accounting professional and understanding how your business' financial information can be used to improve the performance of your business. As such, this book is for educational purposes only. Every business is different. We encourage you to seek professional legal, tax, and accounting assistance in implementing the suggestions discussed here and to set up processes and procedures that meet the needs of your business.



Why a Cash Forecast Matters

While most people want to focus on their big sales or finally reaching a million dollars in revenue, cash is the lifeblood of every business. For small businesses, knowing your cash balance can mean the difference between growth and insolvency. This is particularly important for businesses that are growing fast, because growing fast can also mean growing broke.

A **cash forecast** helps you anticipate future cash inflows and outflows, so you're never caught off guard by a shortfall—or miss an opportunity because you didn't plan ahead.

With a clear forecast, you can:

- Apply for a line of credit before you need it and cannot get one.
- Anticipate shortfalls and avoid overdrafts.
- Make informed decisions about investments and hiring.
- Build trust with lenders and investors.
- Stay in control of your finances instead of reacting to surprises.

In short, a cash forecast helps you run your business proactively rather than reactively. Cash flow is the second step in our 9-step system of creating a profitable business that supports our clients in their quest to live a life of meaning.

How to Create Your First Cash Forecast

Creating the structure for a cash forecast isn't difficult.

I prefer the following format, **where:**

- The beginning balance for each period is in the first row.
- Next is a section that lists all expected inflows.
- Followed by a section that details all expected outflows.
- Finally, a section that calculates the ending balance for the period: (Beginning Balance + Inflows) - Outflows = Ending Balance.

As you review the picture of our example cash forecast template, you'll see it's laid out in columns for each forecast period. One detail to note: the ending balance of Period 1 should match the beginning balance of Period 2. If not, you'll need to revisit your setup.

	Period 1	Period 2	Period 3	Period 4
Beginning Balance	$1,000	$1,100	$1,170	$895
Inflow Section	$150			
		$220		$500
			$75	
				$30
Total Inflows	$150	$220	$75	$530
Outflow Section				
	$50		$250	
		$150		$75
			$100	
Total Outflows	$50	$150	$350	$75
Ending Balance	**$1,100**	**$1,170**	**$895**	**$1,350**

Want a head start?
Download our basic template and avoid the setup stress altogether.

Download Now!

Once the structure is in place, it's time to fill in the numbers.

Here are the key elements to consider:

- Determine your forecast period
- Determine your beginning balance
- List all expected cash inflows
- List all expected cash outflows

We'll walk through each of these areas, including what decisions to make, what to consider, where to find the needed information, and what could potentially sabotage your forecast.

1. Determine Your Forecast Period

Let's start by defining your forecast period. There are two parts to this decision: **Period Duration** and **Forecast Length.**

Period duration: How long is one forecast period—daily, weekly, biweekly, monthly? We generally recommend weekly. Daily is often too time-consuming to maintain, while longer periods might miss crucial fluctuations. The right choice depends on how frequently you process transactions, the stability of your sales, and your overall cash position.

Ask yourself:

- Does your business handle a high volume of daily transactions, or are most outflows via credit card with infrequent, predictable inflows?
  - The larger and more frequent the transactions, the shorter the forecast period, such as daily.

- How much cash do you have and what do your net profit margins look like?
  - If you have a high cash balance and good net profit margin (>10%), then a longer forecast period is more applicable.

- How much fluctuation is there in your sales?
  - If your sales change dramatically throughout the month, then a shorter period makes sense.

Forecast length: How far into the future should your forecast extend—4 weeks, 3 months, 12 months? Our go-to recommendation is thirteen weekly periods (one full quarter), but it depends on your business goals and data reliability.

Ask yourself:

- How much fluctuation is there in your sales?
    - Same question as before, but over a different range. Instead of fluctuations within a month, how do your sales change month over month, quarterly, or throughout the year? If there are a lot of cyclical shifts, then you will want more periods to be included in your forecast.

- For what are you using the forecast?
    - Short-term (4–8 weeks) for operational visibility.
    - Mid-term (3–6 months) for hiring or spending decisions.
    - Long-term (12 months or more) for strategic planning and raising capital.

- How good is your information?
    - If everything after 3 months is just one big uncertain guess, then do not waste your time trying to forecast beyond 3 months.

      However, forecasting is like a muscle—the more you use it, the stronger it gets. Right now, anything beyond three months may feel uncertain, but after maintaining a forecast for six months, you'll find long-term projections become much more reliable.

Review your sales trends using bank statements, financial reports, or your CRM.

Just remember: the more accurate your info, the more useful your forecast. Be realistic about the time needed to keep the forecast updated. If you can't maintain a daily update, do not choose a daily period.

2. Determine Your Beginning Balance

This is your starting point—your actual cash on hand.

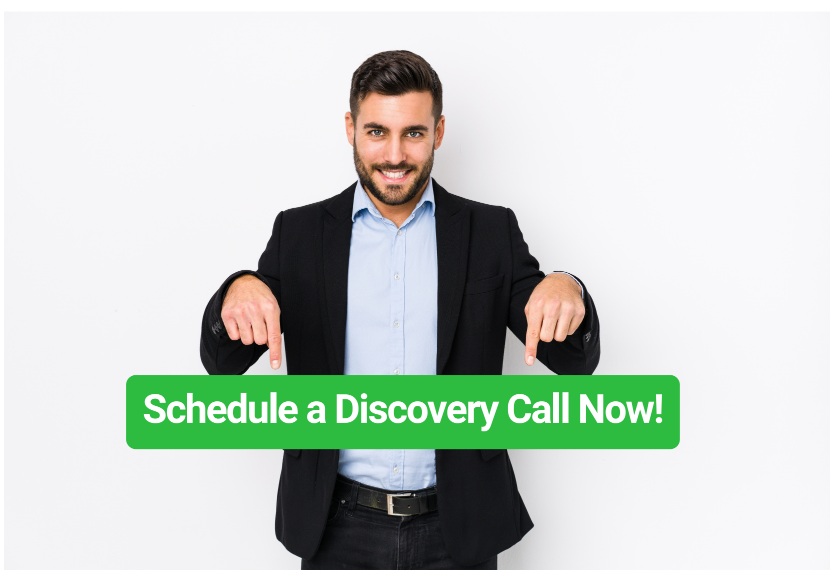
Here's how to approach it:

- Only include cleared funds in the bank. Do not count checks in transit, pending card settlements, or undrawn credit.
- Rely on bank statements, not accounting software.
- Include all relevant operating accounts.
  - If an account is strictly for reserves and isn't used for daily operations, exclude it from your forecast.
  - If you pay expenses or receive cash from an outside source into the account, the account needs to be included.

Ensure your beginning balance matches your forecast start date. If your forecast begins mid-week and some transactions have already cleared, adjust your beginning balance accordingly.

Watch for bank processing delays, especially at month-end. A deposit made in January may not show up until February.

Need help?
Schedule a discovery call now, and let's discuss how we can help you get it right from the start.



3. List All Expected Cash Inflows

Now that your forecast framework and beginning balances are ready, it's time to map out when you expect cash to actually hit your account. Here's how to navigate this step:

Start with customer payments, your primary source of income. There are three ways to track these:

- **Specific:** Ideal for businesses with a few large customers. Forecast payments by customer and by date.
- **Smoothing:** Best for businesses with many small customers. Use historical averages but adjust for seasonality or cyclicality of your business.
- **Hybrid:** Combine both—use Specific for your top customers and Smoothing for the rest. If more than 50% of your revenue comes from a small, manageable group of customers, this method is ideal.

You can find this information in your Accounts Receivable reports, sales pipeline, credit card systems, and bank statements.

Also consider other sources of cash:

- Debt (e.g., line of credit—track separately, not in your beginning balance)
- Investment or grant capital
- Refunds or miscellaneous income

Do not forget to include a miscellaneous line—useful when reconciling your forecasted vs. actual figures later on.

Common pitfalls to avoid:

- Use the actual cash receipt date, not the sale date.
- If payment timing is uncertain, either exclude it or note it separately outside of the forecast.
- For subscription revenue, consider churn and failed transactions.

4. List All Expected Cash Outflows

It's tempting to focus on inflows—after all, that's where the bragging rights are. But outflows require equal attention because they're where cash leaves your business. Fortunately, in many cases, you have greater control over when money leaves your business. However, this also comes with added complexity.

Let's first talk about some of the issues that make forecasting outflows more complex.

- **Credit cards:** Do you track individual transactions or just monthly payments? Both have significant drawbacks. Choose one method and stick with it.
- **Irregular expenses:** Look ahead for large, infrequent payments (like insurance premiums or tax bills) that are not included in your forecast. They can be a very nasty surprise.
- **Fixed vs. variable expenses:** Some (fixed) expenses, like rent and insurance, pretty much stay the same month over month. Other (variable) expenses such as utilities, cost of goods sold, contractor expenses, and advertising expenses will change over time. You need to identify what causes the variations and use that to forecast the expense.

There are two primary methods to record outflows:

- **Grouped:** Categorize expenses (payroll, rent, software) and apply either exact or smoothed averages. You should account for at least 80% of your spending in the categories you have selected.
- **Specific:** Only use for large, irregular, or critical payments—do not double-count them. You will still use the Grouped method for all other expenses.

Use your accounting software, bank & credit card statements, payroll records, and tax documents to collect data.

Outflow forecasting tips:

- Always include uncertain expenses—it's better to plan for them and be wrong.
- Label expenses as mandatory or discretionary for added flexibility.
- Do not guess. If you do not know, dig into your numbers.
- Include owner distributions as outflows. Your pay should be planned, not spontaneous.

Conclusion

Building a cash forecast isn't just a financial exercise — it's a strategic move that empowers you to lead your business with clarity and confidence. By understanding your cash position, carefully mapping out inflows and outflows, and selecting a forecast period that suits your business, you gain control over your business future. This proactive approach leads to greater stability and growth.

Your forecast serves as an early warning system, a decision-making tool, and a way to build trust with lenders and investors. It's a living document that evolves with your business—one that reveals trends, uncovers vulnerabilities, and opens the door to opportunities.

If you're just starting out, focus on progress over perfection. Begin with weekly periods, plug in your known inflows and outflows, and refine as you go. With each update, your forecasting "muscle" strengthens—and soon, you'll wonder how you ever managed without it.

Need guidance on cash forecasting and planning for growth?
Now that you've reviewed the steps and downloaded the cash flow template, if you need any help or have questions about getting started, we're here to guide you.

Schedule a discovery call with us, and let's discuss how we can support you in refining your cash forecasting strategy.

Book a Discovery Call Now!

Want to Keep Leveling Up?
If you found this helpful, you're just getting started.

Here's another expert resource to help you on your journey:
Blog: **Why Every Business Owner Needs a Smart Tax Strategy**
Click **here** to explore simple strategies that could save you thousands.

About the Author

Coming from an entrepreneurial family, Eric turned his back on his heritage, because he "learned", as a child, being your own boss meant tons of work, little money, and no time for the family.

After nearly 30 years in Operations and Finance/Accounting roles, working for publicly traded companies in the United States and Asia, Eric realized the problem was not about being your own boss. Rather, it is not understanding the language of business that hurts so many family businesses.

Eric, a CPA and CMA, and his company, ProfitArch™, guide business owners on their personal "Path to Profit™" by blending accounting and operations into a system that leads to greater profit and increased cash flow and freedom. When asked what he likes most about his work, Eric replied: "When I started my business, I didn't know how gratifying it would be to see a business owner's eyes light up when they begin to see how our simple processes can make a big difference in their business. I can have a much larger impact on my client's business, life, and family than I ever could working for big business."

Eric is grateful he has been able to create a system to assist business owners to build the business they have dreamed of, so they can teach their children that being your own boss is the best way to enjoy a full life, create something meaningful, and be actively involved with the most important people, their family.

About ProfitArch™

Businesses with poor profits and without a solid cash flow are more likely to fail. ProfitArch™ guides you in developing strong systems leading to better decisions, greater profits, and increased cash flow, so you can enjoy the things that matter to you most.

We enjoy getting to know business owners and learning more about their needs.
Book for a discovery call today to speak with us and discuss next steps.

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