

# Accurate cash flow forecasting\*

**It's essential to forecast and monitor your business's cash flow accurately so you'll be able to plan ahead for the good times and the bad.**

If you're aware of an upcoming period when your business will hit a slow patch, you'll be able to plan ahead to arrange timely finance. Likewise by knowing when you'll have a period of strong cash flow, you can plan to expand or set up cash reserves.

Whether you use an online tool, cash flow forecasting software, or a Cash Flow Forecast Template the quality of your forecast depends on the quality of your inputs. With that in mind, review the following tips before beginning.

## Use accurate figures

It's worth putting some time and careful thought into getting these figures right, because most cash flow forecasts contain some assumptions due to market fluctuations, seasonal sales cycles and other unknowns.

- Do your best to be as accurate as possible when making assumptions, referring to past sales data, benchmarks, previous invoices and other supporting documents to help you determine the most accurate numbers possible.
- Make detailed notes on the assumptions you've made in your forecast to help anyone else reviewing your forecast to better understand how you calculated the numbers.

## Rely on solid research to estimate sales

Use market research as well as your sales history to calculate accurate sales projections. If you haven't started your business yet, thoroughly research your target market to assess realistic future levels of sales.

You should also consider peak seasonal periods; cash flow usually isn't consistent all year round. For example, if you're in the retail business, high sales volume for Christmas in December may be followed by a slump in January (unless you've planned an advertising or promotional campaign to reduce the likelihood of this happening).

## Estimate expenses

Once you've forecasted your sales for each month you'll be able to estimate your expenses:

- Add in all the expenses that you expect or can reasonably predict. It's relatively easy to review past expenses and calculate for the year ahead. If you haven't started your business yet, get quotes or research online possible expenses from suppliers.
- Make sure your own salary is realistic as it's often tempting to reduce your contribution to make the cash flow balance better. Can you cover your personal living expenses or will you be draining too much out of your business too soon? It's a balance between paying yourself too much and not paying yourself enough to meet your personal living expenses.
- Review your accounting software past data to estimate recurring expenses such as payroll, rent, utilities, telephone service and other overheads.
- Don't forget one-off items like accounting fees and your tax obligations. Many businesses struggle to find the cash to pay taxes when they're due. Your accountant can help you estimate what your tax obligations are likely to be so you can plan for it in your cash flow forecast.
- If you are a new start-up there is a high chance there are one-off initial expenses for any machinery and tools, opening inventory, marketing expenses and office equipment. Use our Start-Up Costs Template to calculate what these may be for your business.

You'll need to explain in detail how you calculated these amounts, noting any assumptions you've made in your cash flow budget.

## Accurate cash flow forecasting



### Check your capacity

If you estimate your sales for a month to be \$50,000, consider how feasible this number really is. There are only so many hours in the day and you'll only be able to deal with a certain number of customers. Placing an arbitrary number in the sales forecast doesn't automatically mean you have the capacity to do it.

### Leave room for credit sales and late payers

Remember that if you need to invoice customers, you can't guarantee the full amount will be paid on time. For example you might find that:

- 80% of invoices are paid in the month following invoicing.
- 10% are paid two months later.
- 10% are paid three months later.

Based on your current data or industry benchmarks, use your best estimate to show this (probable) irregular cash flow.

### Look for industry benchmarks

Often you can find industry data such as information about average sales, margins and costs to help you estimate sales and expenses in your business. Contact your industry association if they hold any information or search public records of larger firms (especially if they are listed) to get any financial data that may be relevant.

### Next steps

- Download the Cash Flow Template and try running different scenarios depending on how busy you could be.
- Add in any loan repayments into the cash flow forecast. Use our Loan Calculator to determine possible repayments.
- It's always a good idea to run your figures past your accountant, adviser or fellow small business owner before presenting your cash flow forecast to outside readers. Your accountant should be able to spot errors, omissions, or discrepancies and will likely have valuable insights as to how you might be able to both improve the cash flow forecast template you're currently working on as well as your actual cash flow in your business.
- Document all your assumptions so others can see how you calculated your amounts.
- Use our [location finder](#) to visit a Store, call us on 1-855-278-8988 or [schedule an appointment online](#).

---

### Important Disclosures

\*These tools and other information are copyrighted 2019 by The Small Business Company, Ltd. ("TSBC") and used under license by TD Bank, NA. This information has been prepared by TSBC for general informational purposes only. TSBC is solely responsible for the content. Any opinions expressed herein belong to TSBC and do not necessarily reflect the opinions of TD Bank, N.A. or any of its affiliates, directors, officers or employees. These materials are not intended to provide legal, tax or accounting advice or to suggest that you engage in any specific transaction. TD does not endorse or guarantee the accuracy of the information provided by TSBC, or any other third party and the information does not necessarily represent TD's business practices or experience. Neither TD nor TSBC makes any representation or guarantee as to the accuracy and/or reliability of such information nor shall any of TD or TSBC or their respective employees be liable for any loss or damages suffered as a result of any use of such information. Please consult your own counsel, accountant or other advisor regarding your specific situation. Any reliance upon any such information is solely and exclusively at your own risk.

Under no circumstances should any information contained in the materials presented be used or considered as an offer or commitment, or a solicitation of an offer or commitment, to participate in any particular transaction or strategy or should it be considered legal or tax advice.

Banking and lending products and services, bank deposit products, and Treasury Management products and services for healthcare providers and payers are provided by TD Bank, N.A., Member FDIC. Lending and leasing products and services, including card services and merchant services, as well as certain other banking products and services, may require credit approval.