RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Cashflow Forecasting for Small Businesses

*Why knowing what's coming in and going out matters **even more than what's sitting in the bank today.***

Why this matters

A business can be profitable on paper and still run out of money. Profit is an accounting figure worked out over a period of time but cash is what actually pays your suppliers, your staff and yourself on the day it is due. Cashflow forecasting is simply the practice of looking ahead and working out whether you'll have enough cash in the bank when you need it so that you can act early instead of being caught out.

What a cashflow forecast is

A cashflow forecast is a rolling estimate of the money moving in and out of your business over a set period, usually week by week or month by month. It starts with your current bank balance, adds the income you expect to receive and subtracts the outgoings you expect to pay, giving you a running balance for every point in that period.

How it's done, step by step

- List every source of income and, crucially, the date that you actually expect it to land, not the date you invoice or the date it's owed
- List every outgoing: rent, wages, suppliers, loan repayments, tax bills and any one-off costs, again dated by when they'll actually leave the account
- Start from your real current bank balance then add and subtract each item in date order to build a running total
- Choose a sensible time horizon: a rolling 13-week forecast for day-to-day management or 12 months for planning and funding conversations
- Compare your forecast to what actually happened each week/month and adjust future estimates based on the gap
- Update it regularly, weekly for a tight-margin business, monthly at the very least for most others

Why it's especially important for small businesses

Small businesses typically hold thinner cash reserves than larger ones so a single late payment or unexpected bill can have an immediate, visible effect rather than being absorbed quietly.

Income is often lumpy or seasonal and dependent on a small number of customers which makes the timing of cash, not just the total amount, the thing that decides whether bills get paid on time.

Access to credit tends to be slower and more limited for smaller businesses so there is less of a safety net if a shortfall appears without warning. Forecasting turns that risk into something that you can see coming and plan around, rather than react to.

NEVER TOO EARLY TO START

You don't need specialist software to start. A simple spreadsheet with a rolling 13-week view catches most problems early enough to act on them. The habit of updating it weekly matters far more than the tool that you use to do it. Obviously using Quickbooks, Xero or Sage is far more efficient as the accuracy of the data is consistent as it comes from actual input.

What to do next

- Set up a rolling 13-week cashflow forecast using your actual bank balance as the starting point
- Block 15 minutes each week, that’s all it takes, to update it and compare against what actually happened
- Flag any week where the running balance goes negative and plan for it well ahead of time
- Book a free chat with us if you'd like a hand setting one up