

STARTING UP

Budgets and Cash Forecasts for a New Business

How to build a simple budget and a cash forecast, why profit and cash are different, and how to use them to stay ahead of problems.

FOR: START-UPS AND EARLY-STAGE BUSINESSES • NEW TO FORECASTING

Profit is not cash

A business can be profitable and still run out of money. Profit is sales minus costs, measured when work is done and costs are incurred. Cash is what is actually in the bank. The gap arises because customers pay after you invoice, suppliers want paying before you are paid, stock is bought before it is sold, and tax and VAT fall due on their own dates. For a young business with little cushion, that gap is where most of the danger lies.

Budget or forecast?

A **budget** is a plan for the year: how much you expect to sell and spend. A **cash forecast** looks at the timing: month by month, what comes in and goes out of the bank, and what the balance is at the end of each month. A start-up needs both, but the cash forecast is the one that keeps it alive.

Building a simple budget

1. **Estimate sales realistically.** Base them on real conversations, orders, and similar businesses, not on hope. Show the number of customers or jobs and the price.
2. **List the direct costs.** What it costs to deliver each sale: materials, subcontractors, delivery, card fees.
3. **List the overheads.** Rent, insurance, software, marketing, wages, accountancy fees, and your own pay.
4. **Add one-off costs.** Equipment, set-up, deposits, a website.
5. **Deduct tax.** Corporation tax or income tax, and VAT if registered. Include them in the plan, even if payment falls later.

The result is your planned profit for the year, and the sales you need to break even.

Who this is for

- New businesses preparing for a bank or investor
- Owners who worry about cash but have never forecast
- Anyone starting with limited savings

Key points

- Profit and cash are different. Forecast both.
- Build the forecast month by month.
- Include tax and VAT payments on their real dates.
- Be cautious on sales and generous on costs.
- Update every month. A forecast you never revisit is a guess.

Turning it into a cash forecast

For each month, set out:

- **Cash in:** receipts from customers, adjusted for how long they take to pay, plus any loans or money you put in.
- **Cash out:** payments to suppliers, wages, rent, loan repayments, tax and VAT, and your own drawings.
- **Opening balance, net movement and closing balance.**

The closing balance is the number to watch. If it goes below zero, you have found a problem on paper, which is far better than finding it at the bank.

Forecast checklist

- Sales by month, realistic
- Time customers take to pay
- Costs, including your own pay
- Tax and VAT on the right dates
- One-off costs
- Closing balance each month
- A cushion for surprises

An illustration

Suppose you invoice £10,000 in March but your customers take sixty days to pay. Your profit for March includes the £10,000, but your cash does not arrive until May. If your costs of £7,000 are paid in March, your bank balance falls by £7,000 first, even though the job was profitable. A forecast shows that dip in advance, so you can arrange an overdraft, ask for a deposit, or shorten your payment terms.

What to do with the results

- **If cash gets tight,** act early: bring in deposits or staged payments, invoice sooner, chase faster, delay non-essential spending, or arrange finance before you need it.
- **If cash is comfortable,** decide deliberately what to do with it: build a reserve, invest, or repay debt.
- **Compare actuals to the forecast each month.** The differences tell you where your assumptions were wrong.

Keep it simple

A spreadsheet with a column for each month is enough. Cloud accounting software can produce forecasts from your real figures, and your accountant can help you set the assumptions. Review the forecast monthly, update it, and keep earlier versions so you can see how your thinking changed.

Related guides

If this is useful, you may also want:

- Business plans
- Funding a start-up
- Cash collection

How King Street can help

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We build the first budget and cash forecast with you, test it against realistic scenarios, and set up regular monthly reviews so you see problems coming. For businesses seeking funding, we prepare the forecasts that lenders and investors expect.

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