



Tips for Effective Working Capital Forecasting

Overview

Working capital is the amount needed by the entity for the smooth functioning of its operations and meeting other short-term debt obligations. It is often considered the blood flow of an entity. Being a businessman, one should better understand the ways to manage effective working capital. Working capital makes a significant impact on the business's cash flow, including profits.

Is it easy to forecast working capital and why it is important?

When it comes to forecasting effective working capital, it is not an easy call to take. The value of total current assets must get reflected while estimating working capital requirements. In order to make a business grow and become profitable, effective working capital forecasting and management is a non-negotiable aspect. One should master management to achieve business goals and ambitions.

The aim behind working capital optimisation and forecasting is either to check the cash position of the concern or to gain control over the liquidity position. There are nearly 6 methods using which one can forecast their working capital and make their functioning smooth. We'll discuss "**Tips for effective Working capital forecasting**" in today's business feature. Also, we'll examine why it is important to have positive working capital.

Must Read: [Types of Working Capital](#) - Benefits & Factors

6 easy Tips for Effective Working capital forecasting

While preparing a forecast plan for sufficient working capital, follow the tips below to make your business function smoothly.

Tip 1: Seek payments earliest possible.

To have positive working capital in the near future, it is better one should look for the maximum possible flow of cash within the business. Make sure there is no delay when it comes to receiving the money you owe to someone. Prepare the invoice as soon as possible and give the creditors a short due date. Also, ensure they start paying before or on the due date, not after it. Involve more people in the scenario and take help of them in having regular follow-ups with clients and customers.

Tip 2 : Manage Business Inventory

The role of inventory is considered vital in effective working capital management. While making a forecast plan for your working capital, be very sure about the stocks you hold and will hold in upcoming times. In case you have maintained a large inventory, it will take a huge chunk of capital, and in case that inventory is not sold, it will eventually be turned out to be a liability.

Oppositely if you maintain less than the required inventory, you will miss the opportunity to make desired profit. Thus accurate forecasting is required to know the exact quantity to be produced. Take the help of accounting softwares and other technological advancements for maintaining scalable and flexible working capital.

Tip 3 : Maintain good credit relations.

It is crucial to maintain a healthy balance of assets and liabilities in your business profile. As we know that working capital comprises both current assets and liabilities. Good working relationships between vendors, business owners and other working professionals bring flexibility and comfort to dealings. Also, it carries a possibility that sometimes you may get leniency on purchases, and interest may get charged on the used amount.

Tip 4 : Get yourself proper Financial Backing.

It is not apparent that forecasting will work the way we predicted. There may be chances when total liabilities exceed the total current assets. One may lack money to effectively monitor business operations. Have you ever thought about what you'll do in that case? Thus it is suggested to always prepare yourself financially to get access to fast credit facilities from the leading lenders.

Take the help of [OneNDF](#) officials -India's leading loan platform, which specialises in business loans. They are currently associated with [99+ lenders](#) (including reputed Banks & NBFCs) that will help you get quick funding at a very competitive interest rate.

Tip 5 : Automate your business using advancements.

Technology and AI are the future as it reduces the possibility of human mistakes or mishaps. Thus it will be better to take the help of advancements. Whenever you forecast your working capital make sure technological upgradation is your priority and your biggest concern that should get implemented.

While preparing a budget for working capital, be sure you are replacing your traditional system with an automated one and accepting E-payments. Automation will result in the smooth functioning of business and avoid inefficiencies like invoice misplacing and delayed processing. It also frees business individuals from the responsibility to pay and collect.

Tip 6 : Keep a check of Overall costs.

Business cost is something that requires regular monitoring. Whatever purchase you make, whether big or small, always try to reduce costs by negotiating. Working capital is effectively managed by controlling costs as the money gets saved in your pockets and can be used for better or other business purchases. It is suggested to maintain a separate budget for all professional purchases. If you need any commodity in the short run, try to lease it rather than purchase it.

Working capital forecasting methods

There are total 6 methods using which working capital is forecasted.

- Cash forecasting method
- Adjusted Profit & Loss method
- Balance sheet method
- Percent of sales method
- Operating cycle method
- Regression analysis method

Business owners generally use techniques out of these to make a precise forecast of their working capital depending on the venture, current market and business scenario. The overall forecasting is based on overall financial requirements and concerned policies.

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Closing statements

Working capital has irreplaceable importance in the business ecosystem. Being a business owner, if you don't want to lack funds, it is highly suggested not to exceed liabilities over assets. Maintain a working capital ratio of atleast 1.2 to 2 for effective business functioning. Effective working capital forecasting is also required to achieve goals like precise business forecasting.

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[E-way Bill registration](#)

[CIBIL Dispute resolution](#)

Tips for Effective Working Capital Forecasting: Frequently Asked Questions

Q.1 What is the best way to forecast working capital?

Start noticing the changes in receivables, inventories, payables and other current items. A standard method is to use the percentage of sales or revenue of each item.

What are the 5 elements of working capital management?

- Trade receivables
- Cash
- Trade payables
- Inventory
- Short-term financing

Q.2 What is capital forecasting?

It is a cloud-based solution that predicts capital needs and manages the renewal of building assets and systems.

What are the 4 tools for working capital management?

- Working capital financing policies

- Cash Budgeting
- JIT
- Economic order of quantity (EOQ)