

KEY SERVICE INSIGHTS



ACCOUNTING AND BOOKKEEPING NEWSLETTER

THE ROLE OF FINANCIAL FORECASTING IN BUSINESS PLANNING AND DECISION-MAKING

What is Financial Forecasting?

Financial forecasting refers to methods for a company to predict future cash flows and expenses. Companies use forecasts to budget and plan for the future as well as to offer insights to investors in financial reports.

Making a mistake when providing a financial forecast or otherwise not accounting for risk can have a significant negative impact on a company's ability to do business. Learning how to prepare accurate financial statements and accurately forecast revenue and cash flow is critical for a company.

The Use of Pro Forma Statements

A common type of forecasting involves using pro forma statements. Pro forma statements focus on a company's future financial statements, which are highly dependent on assumptions made during preparation, such as expected market conditions. Pro forma refers to projections or forecasts and pro forma statements apply to any company financial document including the income statements, balance sheets, and statement of cash flows.

The financial statements can be used for both internal and external forecasting. Internally, the company can use the financial statements for strategic planning by identifying future revenue and expenses which will impact the company's decisions related to hiring and budgeting. Pro forma statements can inform the company by creating financial statements based on various assumptions with interchangeable variables to conduct side by side comparisons of potential outcomes.

Externally, pro forma statements can demonstrate the risk of investing in a company. It is important to understand that while this is an effective form of



forecasting, forecasting based on pro forma statements does not typically comply with GAAP. This is because pro forma statements do not include one time expenses such as equipment purchases or company relocations which allow for greater accuracy because these expenses do not reflect a company's ongoing operations.

Supporting Small and Mid-Size Businesses

As part of our services to our clients, we want to provide simplified information as to the information on the company's financial statements so they can better understand the significance of the financial statements that are being prepared with the goal of empowering our clients to be more informed and make better decisions.

We focus on representing small and mid-size businesses. We advise our clients as to the implications of their financial statements and empower our clients to make informed decisions about the direction of their company based in part on the financial statements. At Praestans, we can handle these important accounting and bookkeeping functions while coordinating professional services customized to the client's needs.