



Looking Ahead – Financial Statement Projections and Forecasts

In many cases people think about financial statements as historical tools used at month and year-ends to look back on the financial performance of their company. Other very useful tools that companies can use to provide important prospective financial information are financial statement projections and forecasts.

While both projections and forecasts provide a look at expected future financial information, there is a difference between the two. Financial statement projections represent a company's financial position, results of operations and cash flows, given one or more hypothetical assumptions. An example of this would be a best case scenario and worst case scenario based on different sales prices and quantities sold. On the other hand, financial statement forecasts are, to the best of the company's knowledge and belief, the **expected** financial position, results of operations and cash flows of the company.

There are many uses for financial statement projections and forecasts. Internally, projections and forecasts can be used to help effectively manage cash flows. This can be especially important if your company is expecting large cash outflows for capital expenditures or other items. Projections and forecasts are also commonly used to help negotiate the terms of debt agreements with banks. Another use, for those of you who have loan covenants associated with your bank debt, is to use projections or forecasts to see whether you are on track to be in compliance with your covenants in the coming months. If it does not appear that you will, this will allow you plenty of time to talk with your bank in advance so the news does not come as a last minute surprise.

Whatever your needs are, financial statement projections and forecasts can be a very effective planning tool for you and your company. For more information on how financial statement projections and forecasts can be used by your company, please contact your GBQ representative at (614) 221-1120 or bjm@gbq.com

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