Chiene+Tait
CHARTERED ACCOUNTANTS

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Forecasting

What are forecasts?

Forecasts can be used for a number of purposes including the provision of information to the banks and other external bodies. However, they are also an integral part of running your business. They can help you plan your business growth, anticipate cash flow issues and allow you to measure against actual performance.

What your forecasts should include

- **Profit and loss forecast** – This is a statement of the expected trading position of the business. It will show the level of profit you expect to make given your projected sales and costs.
- **Cashflow** – This shows when you expect money to enter and leave your business. The aim is to show that your business will have enough working capital to survive. If you are predicting cashflow problems in the future, it will allow you to possibly prevent them or find other solutions.
- **Balance sheet** – This gives a snap shot of the assets and liabilities of the business at a particular point in time.
- **Assumptions** – A set of suppositions used in the preparation of the forecasts required to aid the reader in their understanding of the projections.
- **"What if" scenarios** – by trying out different scenarios you will determine what it takes to make your business financially viable. For example, you may want to forecast a 20% reduction in sales, loss of a key client, a change in your prices, sales being slower than predicted or a delay in a project.

Forecasting tips

- It is important that the forecasts should be based on *your* numbers and assumptions. You will be responsible for achieving the objectives so it is vital that you believe in the numbers. By all means get help on the production of the forecasts, but you remain responsible for them.

- A common mistake made by businesses is to prepare financial forecasts for a bank or investor and then forgetting all about it. Your actual results should be compared to your financial forecasts on an ongoing basis. This will help you anticipate problems before they arise.

- Have the right information available to help you make decisions with confidence – while forecasting your income, costs and cashflow, always involves an element of guesswork, you want to remove as many uncertainties as possible. If you're not certain of particular figures, but you know they are available from somewhere, take the time to find them. Better to invest a few minutes now than be faced with a major problem later because you misremembered something. Remember not to let the gathering of information delay the ultimate completion of the forecasts.

- Avoid being over optimistic or pessimistic – it's a fact of life that we usually predict things to turn out better than they often do. Inject realism into our forecast by considering as many factors as possible. For example look at how long customers are currently taking to pay their bills and using that figure to work out how hast cash will arrive in the future.

- Get a second opinion – sharing your plans and forecasts with someone else gives you the benefit of another perspective. They will test you and your theories, making sure you are able to justify your assumption and will give you confidence in the quality of your thought process.

- Learn from your mistakes – you may get your forecasting wrong from time to time. It might be because the unexpected happened, or you made an error in some figures. Perhaps you were over optimistic, or simply forgot something. It's important that you learn from these mistakes.

Don't forget, overall forecasting sales, costs and cashflow will always lead to making best estimates, but do all you can to make it the best "best estimate" that you can.

For further information, please contact:

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