

# Financial Statements and Financial Forecasting

- Starts with a sales forecast.
- Ends with a forecast of how much money you will spend (net) of inflows to get those sales.

# SPREADSHEET EXAMPLE

**Note:** double click worksheet object

- C:\Documents and Settings\Jon Pratt\My Documents\Teaching\Financial Forecasting.xls

# PERCENT OF SALES METHOD

Simple,---but need history to use.  
So, not all that useful for start-ups

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Based on the idea that Balance sheet item like for example, accounts payable or accounts receivable, are bigger if sales are bigger.

# Example: Income Statement

## Tasha's Toy Emporium Income Statement, 2001

		% of Sales
Sales	5,000	
Costs	<u>3,000</u>	60%
EBT	2,000	40%
Taxes (40%)	800	16%
Net Income	<u><u>1,200</u></u>	24%
Dividends	600	
Add. To RE	600	

Dividend Payout Rate = 50%

## Tasha's Toy Emporium Pro Forma Income Statement, 2002

Sales	5,500
Costs	<u>3,300</u>
EBT	2,200
Taxes	880
Net Income	<u><u>1,320</u></u>
Dividends	660
Add. To RE	660

Assume Sales grow at 10%

## Tasha's Toy Emporium – Balance Sheet

	Current	% of Sales	Pro Forma		Current	% of Sales	Pro Forma
<b>ASSETS</b>				<b>Liabilities &amp; Owners' Equity</b>			
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash	\$500	10%	\$550	A/P	\$900	18%	\$990
A/R	2,000	40	2,200	N/P	2,500	n/a	2,500
Inventory	3,000	60	3,300	Total	3,400	n/a	3,490
Total	5,500	110	6,050	LT Debt	2,000	n/a	2,000
<b>Fixed Assets</b>				<b>Owners' Equity</b>			
Net PP&E	4,000	80	4,400	CS & APIC	2,000	n/a	2,000
Total Assets	9,500	190	10,450	RE	2,100	n/a	2,760
				Total	4,100	n/a	4,760
				Total L & OE	9,500		10,250

## Ex: External Financing Needed

- The firm needs to come up with an additional \$200 in debt or equity to make the balance sheet balance
  - $TA - (TL+TE) = 10,450 - 10,250 = 200$
- Choose plug variable
  - Borrow more short-term (Notes Payable)
  - Borrow more long-term (LT Debt)
  - Sell more common stock (CS & APIC)
  - Decrease dividend payout, which increase Add. To RE