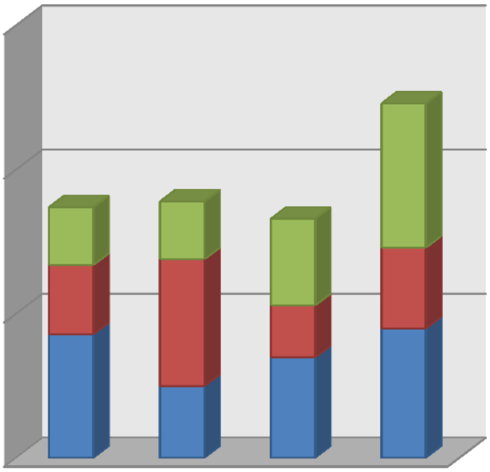
ASC Small Business Guides

5 Key Benchmarks…

…of professional financial forecasts

Whatever you may think about the usefulness and relevance of projected financials, they are usually required by lenders and investors so it is important to get them right. So what separates the best financials from the rest of the pack? We asked Simon Thompson, at [Edge Forecast], for the most important things to consider.

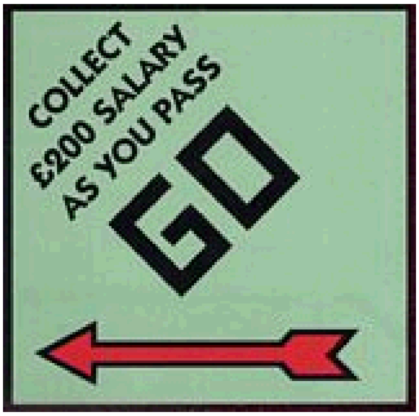
1 A conventional accounting structure



Accounting standards exist for a reason – they work – and you won't score any points for trying to re-invent them. Stick to a conventional approach using a 'profit & loss', 'cash flow', and 'balance sheet'. Recognise that no single element can tell the whole story without the others and make sure each is structured properly in accordance with common practices.

2 Clear, recent opening balances

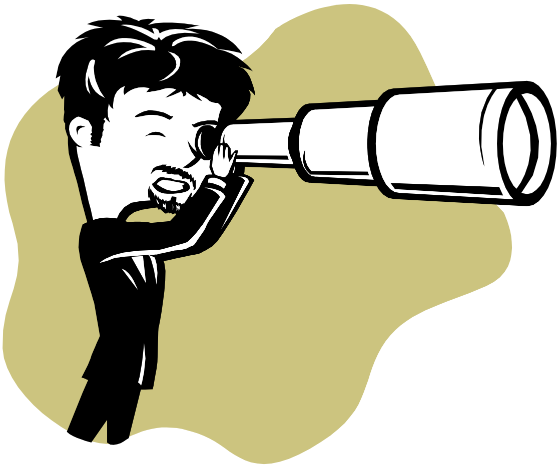
The first fundamental of any forecast is to establish its starting point – "Where are we now?". Your *current* financial position is crucial to anyone considering your projections and you should make these opening balances clear and materially correct. It should be obvious that your management accounts are complete and up to date.



3 The right level of detail

Think about your audience and make it useful and relevant. It's up to you what this means in your case but too much detail is as bad as too little. Make sure the line-level of detail and the descriptions you use are relevant to what you refer to in written documents and discussions.

Provide *monthly* figures for at least the first 12 months and ask yourself if you have communicated the key financial themes clearly. Do your financials pre-empt likely questions, or raise more questions than they answer?



4 Clear, achievable assumptions

If your numbers contain significantly speculative elements make sure you state clearly the assumptions they're based on. Always err on the side of caution and with bank finance remember – they don't care whether you'll be a millionaire in 3 years time. Their concern is whether they'll get their money back, and they'll disregard most of the uplift you put in your projections. As for investors, bear in mind they want to see some upside to whet their appetite, but they won't believe extravagant claims anyway. It's a fine balance to get this right.

ASC finance for business

5 A readable, user-friendly document

The reason you produce these numbers is for someone to look at them so make sure that the output you create is legible both on-screen and when printed, properly paginated and labelled on every page and is saved as a 'pdf' document. Use consistent number formatting without currency symbols and never distribute raw spreadsheets unless specifically requested! Your financials should give up their information willingly – not require wrestling with to make sense of.

Finally, remember that your financials are part of the overall package that make an impression of you. Have you met these key benchmarks? Do yours cast you as a professional, credit-worthy or investable business or an outfit that just doesn't 'get' finance?