Preparing financial forecasts

Things to consider

When preparing your financial forecasts you should carefully think about:

- Your operating costs (expenditure) versus your sales figures (turnover)
- How much money you will need and how much you already have
- How much capital you need if you are seeking external funding
- The security you can offer lenders
- How you plan to repay any borrowings

You may also want to include your personal finances as part of the plan. Your forecasts should run for the next three (or even five) years and the detail you include should reflect the sophistication of your business.

However, the first 12 months' forecasts should have the most detail associated with them.

Cash flow statements

These will reflect your cash balance and monthly cash flow patterns for at least the first 12 to 18 months. Preparing a cash flow statement will enable you to see how much money you need to have to survive.

Make sure you have considered the key factor which is the timing of receipts and expenditure items such as salaries.

Profit and loss forecast

This is a statement of the trading position of the business. Rather than showing the timing of income and expenditure, it shows the level of profit you expect to

make, the costs of providing goods and services and your overheads.

Your forecasts should cover a range of scenarios. New businesses often forecast over-optimistic sales and most external readers will take this into account. It is sensible to include subsidiary forecasts showing, for example, sales being significantly slower than you are predicting or sales starting three months later than expected or at a lower level than you expect.

Risk analysis

It is good practice to show that you have reviewed the risks that could affect your business and its likelihood of success. You should also indicate how you will review and mitigate these risks should they actually occur.

Risks can include such things as:

- The impact of competitor action on your business
- Commercial issues such as an increase or decrease in sales, raw material prices or deliveries
- Operational issues relating to IT or production failure
- Staff including skills, availability and cost
- External issues such as changes in regulation, environmental or political changes
- Acts of God such as fire or flood

You may find it beneficial to use a business assessment tools such as a PEST analysis looking at the political, economic, social and technological external factors which may affect your business.

Relevant Links

- Preparing financial forecasts
- Financial Plan Development
- Finance

Jersey Financial Services Commission

Guide to writing a business plan

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