



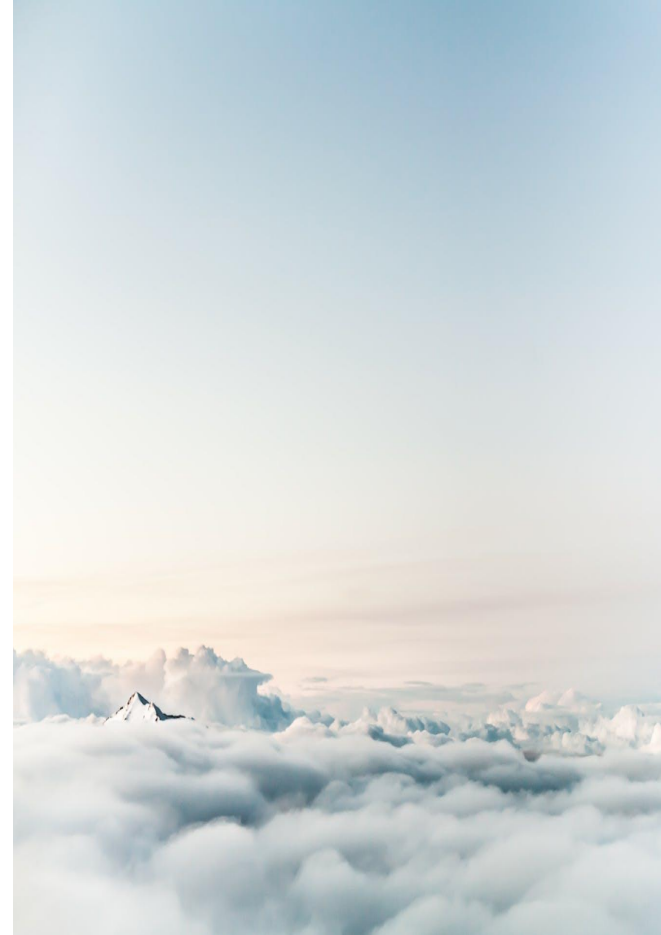
FUNDAMENTALS OF FORECASTING

S M Y D

SHOW ME YOUR DEBITS
CHARTERED ACCOUNTANTS

What am I covering today?

- Driver based Cash v Profit forecasting
- What you need to know when preparing a forecast?
- How to create a basic driver based cashflow forecast.



Cash Forecast vs Profit Forecast

What's included in a profit forecast?

- Focuses on your profit and loss
- Accounting adjustments (Non-cash items)
- Doesn't include balance sheet items such as:
 - Owner drawings
 - Taxes
 - Loan payments
 - Fixed Asset purchases

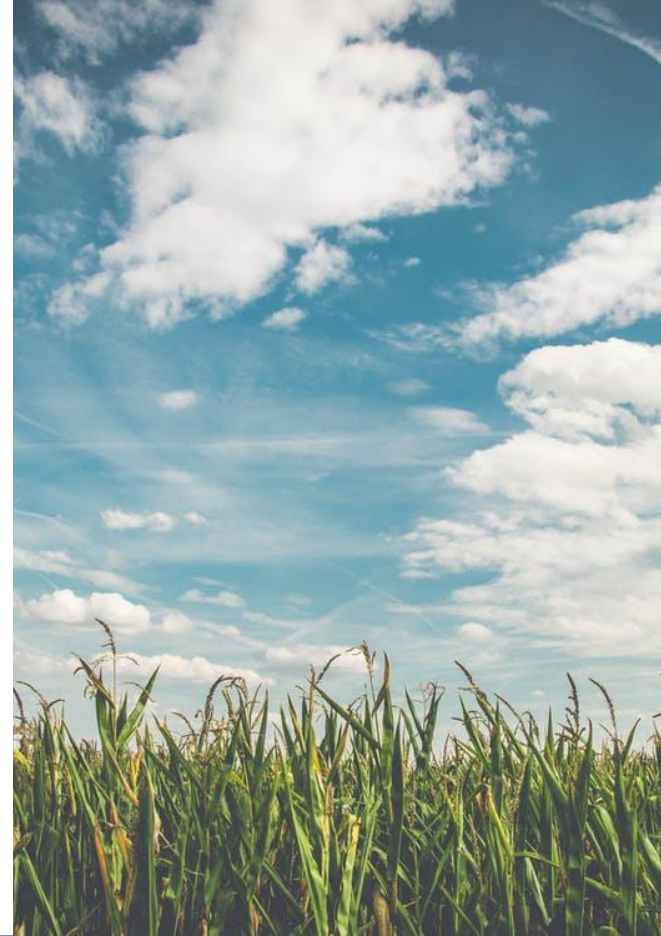
All of these can be substantial drains on your cashflow.



Cash Forecast vs Profit Forecast

What's included in a Cash Forecast?

- It's all about money in and out of your bank account. It includes:
 - Income
 - Expenses
 - Fixed Assets
 - Loan Payments
 - Taxes
 - Drawings
- Profit is not the main focus.



What you need to know when forecasting



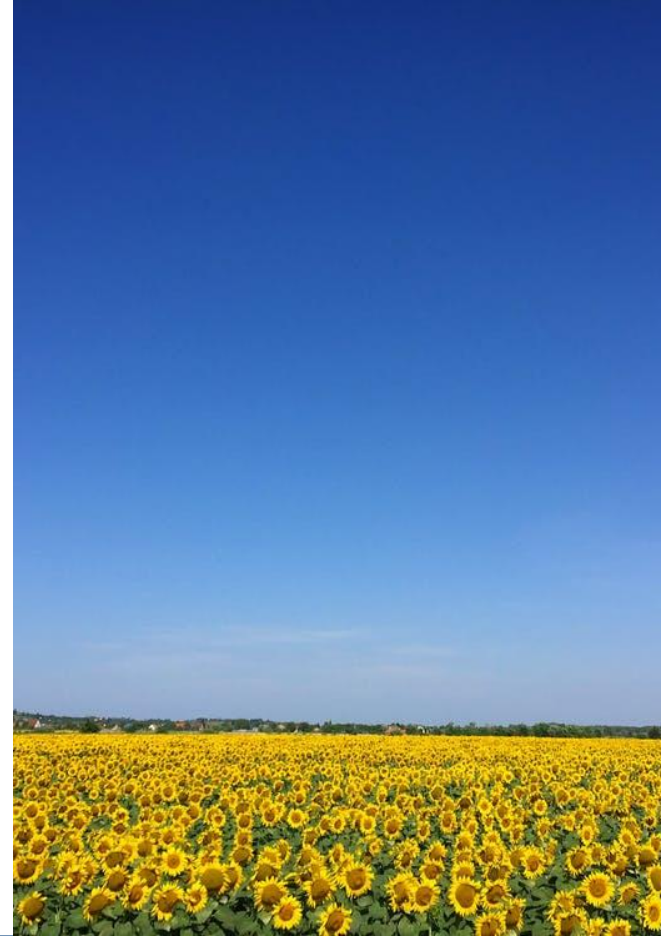
Revenue

Understanding where your cash is coming from?

- Revenue Channels - Where does your revenue come from (Online / retail)?
- Revenue Streams - How many revenue streams do you have and can you add more?
- Product / Service Split - Do you know which product/service is the most profitable / resilient / adaptable?
- Value vs Volume

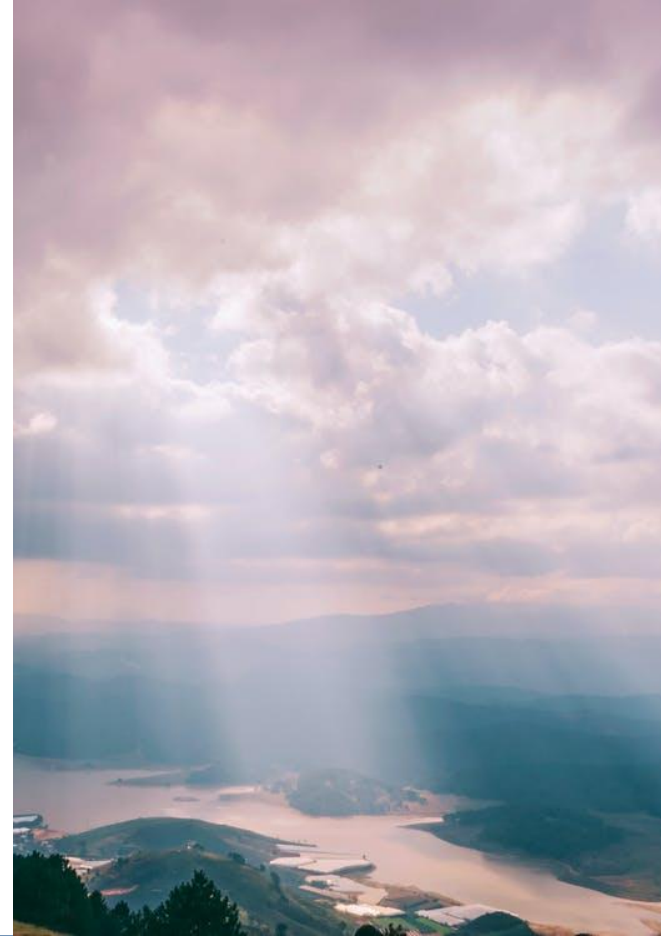
Expenses

- Direct Costs vs Overheads
 - What costs essentially stop when income earning activity stops?
- Overheads - Fixed vs Variable
 - Which expenses are set per month? (Rent, subscriptions, some salaries, loan repayments, etc.)
 - Tend to have very little control over these costs
 - Variable costs can be adjusted to a certain extent (Petrol, Marketing, Advertising)



Balance Sheet cash items

- **Debt**
 - What are your monthly loan payments?
- **Tax**
 - When is it due?
- **Capital Expenditure**
 - What do you need to buy and when?
- **Drawings**
 - How much can the business afford and how much are you taking?



Putting it all into action



Creating your Cashflow forecast

- Extract your information into Excel
- Scenario Planning
- Example

Summary

- Know your numbers = Know your drivers.
- Forecasting is pro-actively planning how to react to unknown environments.
- Profit v Cash forecast
- What's included in a cashflow forecast
- Seen an Excel forecast in action





FUNDAMENTALS OF FORECASTING

THANK YOU

SMYD

SHOW ME YOUR DEBITS
CHARTERED ACCOUNTANTS

- Go to www.smyd.co.nz/forecast to receive a free template and instructional video
- Contact me on jason@smyd.co.nz if you want help in preparing your forecast