



## WEBSITE:

www.menzies.co.uk

## EMAIL:

jcheung@menzies.co.uk

## PHONE:

020 8974 7500

## CLASSIFICATION:

Accountancy

## Financial forecasting

Jenny Cheung, senior manager at **Menzies**, assesses the implications of the current economic uncertainty

**T**HERE HAS been much in the press about businesses experiencing hardship as a direct result of current economic uncertainty. As a business adviser, I have seen businesses experience a mixed bag of fortunes. Whilst some are tightening their purses, others are actively seeking to capitalise on the current market turmoil by acquiring their competitors and strengthening their market position.

A number of people have also taken this opportunity to consider a change of career, and are looking at franchising as a route to becoming their own boss.

No matter what stage of the business cycle you are at, it can never be over emphasised how important preparing and maintaining financial forecasts for your business is. While franchisors may provide prospective franchisees with a standard forecast, it is important that you tailor the forecast to your own personal circumstances, and to the territory you are looking to operate from.

### What is financial forecasting?

Financial forecasting is the process of estimating the results of your business based on a set of parameters (eg estimate of future sales, costs, cash balances etc). Careful thought should be given to these parameters to ensure that they are realistic and can be supported.

### Do I need one?

Yes. Having a map will help you to get from A to B easier; otherwise you could find yourself running into trouble.

### The financial forecast can be used to:

- Assess how viable the franchise will be
- Identify how much you need to generate to be able to make a living
- Provide guidance on basic business decisions (eg implications of signing up to lease commitments etc)
- Help to pinpoint areas of potential cash savings
- Raise money
- Co-ordinate activities and allow planning to ensure the business's objectives can be achieved
- Serve as a vision for other employees to follow
- Establish a system of control and to motivate employees

It is normally recommended that financial forecasts are prepared for a minimum of 24 months to enable you to identify any shortcomings in your business model during the short term (eg failure to break even, running out of cash etc).

The financial forecast is made up as follows:

### Cash flow forecast

The cash flow forecast records when you expect to receive monies and when you expect to pay it out. When preparing the cash flow forecast, consideration needs to be given to the following parameters:

- Sales forecasts and payment terms
- Business expenses, their frequency and payment terms
- The implications of VAT on the cash flow where your business is VAT registered

**“No matter what stage of the business cycle you are at, it can never be over emphasised how important preparing and maintaining financial forecasts for your business is”**

The cash flow forecast will enable you to identify when your need for cash is at its greatest, and allow you to arrange for appropriate funding to be put in place.

It should be remembered that cash flow is not the same thing as profit, and that a profitable business can still fail if it doesn't have the cash flow to keep its operations going. Cash is the lifeblood of the business.

### Profit and loss

The profit and loss forecast should show the profit/loss you will make in an accounting period. It is derived by accounting for all sales made in the period (net of VAT) and the related expenses incurred in the period (net of VAT). It should be noted that revenue or expenses accounted for in the period are not reflective of the cash movement – eg a sale made on the last accounting day would be recognised within the accounts as revenue, but the 30 days credit offered may mean that funds are not received until after the accounting period.

### Balance sheet

The balance sheet provides a snapshot of the businesses assets and liabilities at a given point in time. It enables people to identify the strength of a business and is often used for credit rating purposes and by banks when making lending decisions.

### Seeking help

Given the tighter lending criteria being operated by the banks, and the level of investment you are making (money, time and effort), it is recommended that you work in conjunction with an accountant to prepare financial forecasts for your business. Your accountant will be able to flag any issues which need to be addressed to give your business its best shot at success. Tax advice can also be provided to ensure that you finance the business and extract profits in the most tax efficient manner.

*Jenny Cheung is a senior manager at Menzies, a British Franchise Association-affiliated firm of accountants. She can be contacted on 020 8974 7500 or at jcheung@menzies.co.uk. Details of the firm's franchising service can be found at www.menzies.co.uk. ■*