

Title:

Pro Forma Income Statements

Word Count:

416

Summary:

Pro forma income statements look at revenue and expense projections for future periods. The numbers won't be perfect but process of analyzing your sources of revenue and expenses and using that for business planning is the main value of pro forma income statements.

Keywords:

Pro Forma Income Statement

Article Body:

Pro forma income statements look at revenue and expense projections for future periods. Pro forma income statements are generated by looking at financial performance the year before, comparing it to the current year figures and using the changes to make projections into the future.

Pro forma income statements can be made without past and current data as well. Figures are estimated for the first year and then assumptions are made about how those numbers will change in future periods. The most important thing with pro forma income statements is that you need to track changes from period to period and then apply those changes to the future.

Estimating Pro Forma Income Statement Numbers

Revenue

How much service revenue do you anticipate generating?

Are you going to be reselling products and if so, what do you anticipate your sales to be next year?

Will there be other potential revenue coming in i.e. acting as an agent and getting referral fees from ISPs or Web hosts.

Cost of Goods Sold

What does it cost you to purchase the items you are reselling?

Budgeted Expenses

Exhibits

Sales Seminars
Direct-mail expenses
Postage
Printing costs
List rental
Copy editor or graphic artist
Sales Call expenses
Gas
Tolls
Parking
Telesales
Phone expenses
Display advertising
Commissions
IT expenses
Training and certification
Research and development
Subscriptions
Extra PCs
Administrative expenses
Payroll
Subcontractors
Telecommunications expenses - cell phone, business line
Insurance - Business, General Liability, Casual
Travel and entertainment
Office supplies
Health insurance
Car payments
Bank fees
Credit cards fees
Professional fees - accountant, lawyer

Total up your revenue - Subtract your expenses - You have a pro forma income statement. Analyze your numbers against previous years' data or assumptions about the future and create statements for 3 - 5 years into the future.

Breaking your pro forma income statements down into quarters is a good idea. Obviously, the further out you go out the more subject it will be to change, but it's important to be thinking about the future and putting a plan down on paper.

The Bottom Line on Pro Forma Income Statements

Pro forma income statements are an excellent planning tool. They are based on

historical performance and best guess estimates of the future. The numbers on a pro forma income statement won't be perfect but the exercise of analyzing all your sources of revenue and expenses is one that will assist your business planning process immensely.

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