

Comprehensive But Succinct Step By Step Guide To Building Financial Forecast



Financial Modelling Manual: A comprehensive but succinct step-by-step guide to building a financial forecast model in Excel by John Milton Fogg

★★★★☆ 4 out of 5

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A financial forecast is a prediction of a company's future financial performance. It is used to make decisions about budgeting, investment, and other financial matters. Generating a financial prediction is a difficult undertaking, but it is achievable with the right information and tools. This article will guide you through the process, from gathering data to making assumptions to creating a forecast.

Step 1: Gather Data

The first step in creating a financial forecast is to gather data about your company. This data includes:

- Historical financial statements

- Industry data
- Economic data

Historical financial statements provide a foundation for your forecast. They show you how your company has performed in the past, which can help you identify trends and patterns. Industry data can help you understand the competitive landscape and economic data can help you understand the overall economic environment.

Step 2: Make Assumptions

Once you have gathered data, you need to make assumptions about the future. These assumptions will be based on your understanding of the company, the industry, and the economy. Some common assumptions include:

- Revenue growth rate
- Expense growth rate
- Economic growth rate

It is important to be realistic when making assumptions. If you are too optimistic, your forecast will be inaccurate. If you are too pessimistic, your forecast will be too conservative.

Step 3: Create a Forecast

Once you have made your assumptions, you can create a financial forecast. There are a number of different methods for creating a forecast, but the most common is the **three-statement model**. This model uses the

income statement, balance sheet, and cash flow statement to create a forecast of future financial performance.

The three-statement model is a complex process, but it is the most accurate method for creating a financial forecast. If you are not comfortable creating a three-statement model, you can use a simpler method, such as the **percentage of sales method**. This method simply forecasts future financial performance based on a percentage of sales.

Step 4: Monitor and Update Your Forecast

Once you have created a financial forecast, it is important to monitor and update it regularly. As new information becomes available, you should adjust your assumptions and revise your forecast. This will help you ensure that your forecast is always accurate and up-to-date.

Creating a financial forecast is a challenging but rewarding process. By following the steps in this article, you can create a forecast that will help you make informed decisions about the future of your company.



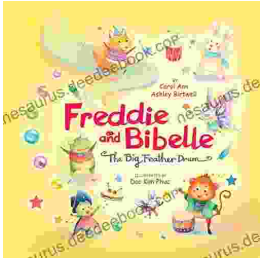
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