



How is the forecast looking? Andy Gill from AG Accounting considers the importance of financial planning

The lack of planning and control of cash resources is the reason often given for the failure of many small businesses.

Good forecasting can help reduce your business risk. Much like a map helps you plan a long road trip, a financial forecast (or a cash budget, cashflow, or financial plan) helps you achieve your goals and get your business to where you want it to be. It's basically a tool that allows you to use your resources where they're most needed, so you can control the cash flow of your business, instead of it controlling you. It allows you to control your money so you are more likely to achieve your desired profit.

What is a financial forecast?

A financial forecast is simply a financial plan or budget for your business. It is an estimate of two essential future financial outcomes for a business – your projected income and expenses. Create a cashflow forecast by adding income and expenses as they are due. You will then know exactly how much you need to make every month for a profitable business.

Predicting the financial future of your business is not easy, especially if you are starting a business and do not have a trading history or you may not have the expertise. Initially, your financial forecasts will be inexact and inaccurate. However, frequent forecasting with adjustments as required will promote more accurate forecasting.

Why bother?

The financial forecast is critical to your business plan, especially if it is for the purpose of getting a bank loan. More importantly, you are an investor in your own business and you must have confidence in the validity of your business concept.

A financial forecast is a vital tool in the financial management of your business and, like your business plan, requires regular review and amendment to be effective.

Once the period for which you prepared the budget is over, be sure to compare the actual results against your budget forecasts. Examine why variations have occurred, take any remedial action necessary to correct the problem, or plan for them accordingly in your next budget.

Advantages of an effective financial forecast:

- Demonstrates the financial viability of a new business venture. Allows you to construct a model of how your business might perform financially if certain strategies, events and plans are carried out.
- Allows you to measure the actual financial operation of the business against the forecast financial plan and make adjustments where necessary.
- Allows you to guide your business in the

right direction and take control of your cash flow.

- Provides a benchmark against which to measure future performance.
- Identifies potential risks and cash shortfalls to keep the business out of financial trouble.
- Provides an estimate of future cash needs and whether additional investment or borrowing is necessary.
- Assists you to secure a bank loan or other funding. Lenders and investors require financial forecasts to show your capacity to repay the loan.
- Allows you to see 'what if' scenarios and identify funding for contingencies

Consider outsourcing

Whether you are a new business start up or a small to medium-sized operation seeking to get a better handle on the finances, outsourcing some or all of your budgeting processes and planning may be the solution. It can be a highly cost-effective option, allowing you to concentrate on your core business.

AG Accounting offers the full range of accountancy services and can assist you to put systems and business processes in place. Financial forecasting is a vital function for any operation irrespective of size and is a key enabler towards a highly profitable successful business.

Looking for a better view of your business now and into the future?

We stand out.

To find out more

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