

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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