

Financial Forecasting and Modeling

Steven M. Bragg

Table of Contents

Chapter 1 – Financial Forecasting	1
Learning Objectives	1
Introduction	1
Uses for Forecasting	1
Forecast Characteristics.....	2
Implicit and Explicit Forecasts	2
Types of Forecasting Methods	2
Forecasting Method Selection Criteria	4
Moving Averages	5
Exponential Smoothing	6
Regression Analysis.....	7
Capture Ratios.....	9
Simple Forecasting Methods.....	9
Prior Year Actuals × Adjustment Factor	10
Average of Multiple Prior Periods.....	11
Expected Unit Sales Basis.....	11
Spending per Customer.....	13
Change in Advance Bookings or Orders	13
The Rolling Forecast	14
Use of Leading and Lagging Indicators.....	15
Forecasting Accuracy.....	16
Uncertainty	16
Historical Basis.....	16
Update Frequency	17
Nature of Forecasting Model.....	17
Planning Deviations	17
Forecasting Traps	18
Setting Forecast Boundaries	19
Detecting Cresting Sales.....	19
Evaluation of Forecasts.....	21
Responsibility for Forecasting.....	22
Summary	22
Review Questions	24
Review Answers	25
Chapter 2 – Financial Modeling	27
Learning Objectives	27
Introduction.....	27
The Financial Statements.....	27
The Balance Sheet	27
The Income Statement	30
The Statement of Cash Flows.....	31
Interactions between the Financial Statements.....	33
The Nature of Financial Modeling	34
The Financial Modeling Process.....	35
Key Inputs to the Financial Model.....	36
Structure of the Financial Model	37
Variables Section.....	37
Fixed Asset and Depreciation Modeling.....	41
Other Assets Modeling	43
Debt Payable Modeling	43
Equity Modeling	43
Balancing the Model.....	44
Covenant Monitoring	44

Table of Contents

Working Capital Projections for a Growing Business.....	44
Working Capital for a Declining Business	47
Sensitivity and Scenario Analysis	47
Variables Sensitivity	47
Scenario Analysis	48
Excel Tools.....	49
Incremental Modeling Analysis	49
Model Risk.....	50
Budgeting and Planning Software	51
Pro Forma Financial Statements	52
Responsibility for Modeling.....	52
Summary	53
Review Questions	54
Review Answers	55
Chapter 3 – Cash Forecasting.....	57
Learning Objectives	57
Introduction.....	57
The Cash Forecast.....	57
The Short-Term Cash Forecast.....	58
The Medium-Term Cash Forecast	61
The Long-Term Cash Forecast	61
The Use of Averages.....	62
Automated Cash Forecasting	62
The Reliability of Cash Flow Information.....	63
The Impact of Special Events.....	64
The Foreign Currency Cash Forecast.....	65
Cash Forecast Reconciliation.....	65
Summary	65
Review Questions	66
Review Answers	67
Chapter 4 – Microsoft Excel Modeling.....	69
Learning Objectives	69
Introduction.....	69
Moving Averages Function.....	69
Exponential Smoothing Function	71
Linear Trend Function	71
Polynomial Trend Function.....	72
Regression Analysis.....	73
Iterative Calculations Function.....	76
Data Table.....	76
Goal Seek.....	79
Scenario Manager.....	79
Summary	82
Review Questions	84
Review Answers	85
Glossary.....	87
Index	89