A QUICK START GUIDE TO FINANCIAL FORECASTING

Discover the secret to driving **growth**, **profitability**, and **cash flow** higher

PHILIP CAMPBELL

Foreword by **Steve Player**

Look What Entrepreneurs, Business Owners, Investors, and Advisors Are Saying About This Gem of a Book

"Philip's approach to financial forecasting has helped us completely turn around our profitability and cash flow and get it moving in a positive direction. I love the way he speaks and writes in a way that is simple and easy-to-understand. The principles in *A Quick Start Guide to Financial Forecasting* have become an integral part of how we plan and manage our financial future every month."

—Andrea Sato, Chief Executive Officer,
Gary's Vacuflo, Inc.

"Cut out the chart **Building a Financially Strong Business** in the bonus chapter. Pin it, tape it, or post it where you can see it daily. Follow every step on there. Then use what Philip teaches in this book to make it happen. It will help turn your business into a secure, financially strong generator of CASH."

—Stan Touchstone, Owner,
Kissimmee Valley Feed and Ranch Supply, Inc.

"A Quick Start Guide to Financial Forecasting takes a natural law 'What you focus on you are more likely to achieve' and translates it into a practical tool for improving your financial performance in business. Philip is your expert guide to using this often-overlooked tool, a reliable financial forecast, to create the view through the financial windshield of your business. You are going to love the tips and tools he shares in the book."

—Larry Tyler, Business Advisor,
Author, *Romancing the Loan*

"Thought provoking and detailed. Not only does Philip explain how to prepare a financial forecast, but he also helps you to understand the value and benefits of forecasting."

—Joanna Vu, CPA

"Philip Campbell has a special knack for helping business owners uncover financial insights that others miss. *A Quick Start Guide to*

Financial Forecasting is a brilliant example of his talent for helping entrepreneurs use insightful, forward-looking financial information to develop a bigger and brighter financial future for their company."

—Ed Lette, Founder, President and CEO,
Business Bank of Texas

"This book provides an incredibly useful tool for entrepreneurs and finance people alike. It paints a compelling picture of the power of developing a more forward-thinking approach to financial performance. And I love the bonus chapter on how to assess the quality of a company's accounting department. Very enlightening!"

—Patrick Finn, CPA, Principal, Finnancial Group, LLC

"Many business owners and managers exhaust themselves and their employees trying to overcome strategic problems with brute force in their day-to-day efforts. They're working hard and moving fast, but they're moving in the wrong direction. As a CPA and consultant to small/medium-sized construction and manufacturing firms, I see this with nearly every new client. They've run themselves ragged trying to figure out what's been happening to their business in recent years. When they finally approach our firm and the first question from me is about their forward operational planning and not about their historical numbers it comes as a shock.

This is nearly always the case; businesses are trying to compensate for their lack of strategic planning and forecasting with short-term Band-Aids and feel-good, immediate solutions that at best prolongs the problem and at worse dooms the business to failure in the long term. That's why the principles and tools in *A Quick Start Guide to Financial Forecasting* are so important to business owners and managers. Whether this is your first exposure to forecasting or you're a seasoned CFO with a talented FP&A staff, reading and applying these principles will seriously sharpen your financial skillset.

By providing clear motivation for why any business over a couple million in revenue needs a forecast, a clear process to create a forecast, and removal of common barriers to forecasting, Mr. Campbell has penned a recipe for forecasting success and proven this recipe with examples throughout the book. Use what you learn from this book to speak with confidence to your lenders and investors when approaching expectations for coming months. Make better strategic decisions like expanding into new sales territories or shutting down an operation. Use a forecast as a bellwether to know if bad times are approaching.

I'm recommending *A Quick Start Guide to Financial Forecasting* to my clients and I highly recommend you read it too."

—James H. Johnson, CPA, CITP, CGMA, MBA,
Trainer, Wright, & Paterno CPAs

"The same way a pilot creates a flight plan and checks the weather forecast along their route, *A Quick Start Guide to Financial Forecasting* provides the view of where you want to take your business and helps you plan the route that will get you there safely and on time."

—Ali A. Mohammed,
Managing Director, Ramco International (U) Ltd

"Philip Campbell has a unique talent for taking complex financial subjects and simplifying them so that every business can benefit. His knowledge and background are apparent in his depth of understanding of such difficult financial subjects as cash flow and forecasting. I have added *A Quick Start Guide to Financial Forecasting* to my list of required reading for entrepreneurs and business owners—a list which already includes Philip's first book *Never Run Out of Cash*."

—Mark A. Adam B.A., B.Sc., M.B.A.,
Lecturer (Sessional) in Finance,
School of Business and Economics,
Thompson Rivers University

"I enjoyed the focus on simplicity and the value of treating the forecasting process as a top-down exercise. The book provides specific tips and tools for those new to forecasting as well as the seasoned forecaster."

—Jennie Enholm, CPA, CGMA

"I enjoyed and was challenged by the 'think top-down, not bottom-up' approach Philip Campbell teaches in this book. It will change the way you think as a business owner and help you drive different behavior throughout your company. *A Quick Start Guide to Financial Forecasting* is easy-to-read and provides engaging stories and examples you will find very relatable…and actionable.

I believe a business owner that is making some money, but not getting where he/she really wants to be, will benefit the most from this book. Sometimes business owners find themselves depressed for not having done 'all the right things'. This book will inspire you to buckle down, take steps to create a reliable, top down overview and forecast, then hone in on where your business is truly going. THEN you can align it to where YOU want it to go!

I also believe that business owners that might not be making money, those that may have overpaid for their business or are overleveraged, will discover that Philip's approach to financial forecasting will play a large role in their recovery."

—John Albers, President/CEO, The Albers Group, LLC

Bonus Chapter 2

How to Turn Your Accounting Department into a Strategic Asset

"The fact is, accounting and finance, like all those other business disciplines, really are as much art as they are science. You might call this the CFO's or the controller's hidden secret, except that it isn't really a secret, it's a widely acknowledged truth that everyone in finance knows."

—Karen Berman and Joe Knight with John Case,
Financial Intelligence

What if you could turn the accounting and financial function within your business into an important strategic asset? An asset that could help you win in business? An asset that could help you create confidence and credibility with all the people interested in, and invested in, the financial success of your company?

A poor accounting and financial function will drag you down. It handcuffs your ability to grow and attract capital and talent. It hurts your credibility with your banker, lenders, investors, partners, and all those in the financial community you need to grow your business successfully. It will suck the life out of you. What a waste of smarts and talent to work so hard to create a successful company only to allow your accounting function to underperform and drag you down.

In this bonus chapter, I'm going to help you evaluate your accounting and finance function, what some consider a necessary evil, and turn it into an asset the financial community respects and admires and that forms the foundation for helping you grow and succeed financially. This isn't about winning awards in accounting. This is 100% focused on making your business stronger.

Smart Financial Management

Smart management in business starts with taking a more strategic approach to how you manage the financial side of your business. You have a unique opportunity to build confidence, trust, and credibility with everyone who has a stake in the financial success of the company. Smart financial management is made up of three components:

- Confidence
- Insight
- Accuracy and speed

These three components of smart financial management are your guide to turning your accounting function into a strategic asset. You can transform their role into one of helping you create trust and respect and away from the old view of accounting as just gatekeepers and a cost center.

Confidence

The foundation for success in managing the financial side of the business is captured in this one word–confidence. Confidence in your own mind that your company has a solid financial foundation in place to grow. Confidence in the minds of the bankers, lenders, investors, and shareholders who will provide the capital you need to improve and expand your business. Confidence that you and your management team have fast, accurate, and focused financial information to make smart business decisions.

Insight

The information you receive about the financial side of your business needs to be insightful. Too many entrepreneurs (even CFOs) fall short here because they see their role as just requiring (or preparing) financial statements . . . or a tax return . . . or creating an analysis schedule.

Providing insight goes way past that. It's about providing information that helps management make better decisions. It's about providing information to lenders and investors to help them better understand the key drivers of your financial performance. Financial information that is insightful is an important part of creating confidence and trust in their eyes.

Accuracy and Speed

The third component of smart financial management has to do with the accuracy and speed with which you receive (and provide) financial information. Providing slow and inaccurate information will kill your credibility. No one will trust your numbers if you do that. Nothing kills your credibility more than providing financial information that is inaccurate or tends to bounce around and change.

When you provide accurate information, and you provide it quickly after the end of the month, and you do that consistently month to month, you set yourself out as a company that has its act together. Lenders and investors love that and it will help you forge a strong relationship with them that will last a long, long time. . . and pay big dividends.

Financial Team Assessment

Now I'll weave the three characteristics of smart financial management into an assessment form so you can quickly see where you stand in each area. It's a tool to help you better visualize what your financial function should look like while also providing a hard look at where you are today. By financial function, or financial team, I am referring to your accounting department and the related departments responsible for the financial side of your business. Basically, the area your CFO manages.

The Financial Team Assessment in Figure B2-1 is a super-fast way for you to zero in on where you are weak or strong. You can quickly see where you stand in the three areas that matter most. The three components of the assessment tie in directly to the three keys to smart financial management we just looked at. Your score in each of those three areas provides an instant picture about the health and well-being of your accounting and finance function.

Here's How the Assessment Works

Each section has a number of statements in it. Read each statement and then answer, on a scale of 1 to 10, the extent to which that statement is true in your company. Write your answer in the blank to the left of each statement. A 10 means "absolutely, 100% true." A 1 means "not true at all, not even close."

For example, the first statement in the Confidence Factor section says "Your accounting and finance function is strong and will support your growth plans into the future." So how true is that statement in your company? If your accounting and finance function operates as a well-oiled machine, you would answer with a 9 or a 10. If it's pretty strong, but there are some areas where you would like to see it get better, the answer might be an 8. If it has some things under control but you know you have to make it stronger in order to help

Figure B2-1

FINANCIAL TEAM ASSESSMENT

The three sections below provide a quick way for you to gauge how effective your accounting and financial function is currently performing. Answer each statement on a scale of 1 to 10 as to how true that statement is. A 1 means "not true at all, not even close" and a 10 means "absolutely, 100% true".

	CONFIDENCE FACTOR
	Your accounting and finance function is strong and will support your growth plans into the future
	Your bank/lenders have confidence in your numbers and the financials they receive
	Your Board/owners have confidence in your numbers and the financials they receive
	Your management team has confidence in the numbers and the financials they receive
	Add up each of the answers
	Divide by number of questions answered
	= Your Confidence Factor Score

	INSIGHT FACTOR
	You provide a monthly reporting package to lenders and owners
	The package contains:
	A short memo that answers the question "What happened and what's about to happen"
	Actual results for the 5 to 7 key drivers of financial performance
	Current month and year-to-date results vs plan and prior year
	Insight into "What happened to the cash and what's about to happen to the cash?"
	Side-by-side view of actual and forecast monthly results down to the cash flow level
	Add up each of the answers
	Divide by number of questions answered
	= Your Insight Factor Score

	ACCURACY AND SPEED FACTOR
	The numbers in the monthly financial statements are accurate
	Financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP)
	In the annual review or audit of your financial statements, the CPA firm makes very few adjustments
	Each account on the balance sheet is well supported and documented
	Management reviews the monthly financial statements to ensure accuracy before they are published
	Financial statements are provided to lenders and owners on or before the 10th calendar day each month
	Add up each of the answers
	Divide by number of questions answered
	= Your Accuracy and Speed Factor Score

you grow the company into the future, you might answer with a 6 or a 7. If the function is in shambles you might answer anywhere from a 1 to a 5.

The key is to go with your gut reaction to each statement. No need to think too much about your answer or be overly precise. You just want to get a quick sense of where you stand on each statement. Then each of the three sections has a space for you to add up your answers, divide by the number of questions you answered, and the result is your score on that factor. The score should have one decimal place. It's a very simple process, yet very revealing.

Let's talk about each factor in a little more detail.

Confidence Factor

This score is what it's all about. This is how you know if your accounting and finance function is strong and helping you win friends and influence people (the people who provide access to cash) or if it is weak and dragging you down. It helps you determine whether this part of your business is an exciting contributor to your success, or just a cost center that fails to add any real value.

There are only four statements to respond to.

1. **Your accounting and finance function is strong and will support your growth plans into the future**

   Go with your gut reaction to answer this question. What was your first thought when you read that statement? One part of your reaction hinged on the word "strong." The other part of your reaction was to the words "will support your growth plans into the future." The faster you want to grow, and the larger you want to become, the stronger your foundation has to be. . . and the better your financial information and reporting has to be. And growth requires cash from both internal and external sources. Growing successfully means you have a good view of what lies ahead financially and that you can line up cash *before* you need it. A weak accounting and finance function provides poor visibility and does little to help you create trust and respect in the financial community.

2. **Your bank/lenders have confidence in your numbers and the financials they receive**

   Anyone you have borrowed money from fits here. Do they have confidence in the financial statements you provide? Do they trust your numbers? The more sophisticated the lenders, the more likely they are to analyze the financials you provide and use them as an important tool in evaluating your company (and you) as an ongoing credit. Most companies do a poor job in this area. A 10 here means lenders frequently praise you for the quality and speed with which you provide them good, solid financials they can trust. Complaints and lots of questions about the numbers puts you in the 1–5 range.

3. **Your investors/shareholders have confidence in your numbers and the financials they receive**

   This is the same question as 2 but focused on your investors/shareholders and owners. The larger your company, the more likely you have owners in addition to yourself (and a Board of Directors). And they have a unique view of the company that is very important to think through and understand. They are usually not involved in the day-to-day functioning of the company. But they have a great deal of responsibility and a vested interest in the financial success of the company. So they need to get information in a way that helps them play that role and helps them understand the financials from the 30,000-foot view. They must understand the basic drivers of financial success without needing to dive into the details of the day-to-day operations. The more confidence they have in the financial information they receive from you, the more support and backing they will provide you and your company.

4. **Your management team has confidence in the numbers and the financials they receive**

   This is the same question as 2 and 3, but focused on your management team. Management needs financial reporting that helps them instantly see the link between the actions they are taking and the financial results those actions created (or are likely to create). They need to know quickly what they should be doing more of (because it is creating the desired financial result) and what they need to do different (because it is not creating the desired financial result). That's how the accounting and finance function can add tremendous value in your ongoing effort to improve profitability and increase cash flow.

What's the Norm?

My experience with clients is that most Confidence Factor Scores will be in 7.5 to 8.5 range. Generally, the financial statements are in pretty good shape and the parties receiving them are generally okay with them. The area bringing the score down is usually that the owner or entrepreneur knows in his gut that the function is a weak link in the organization.

They have plans for growing the company much bigger than it is and they are beginning to realize that having a strong and respected financial function will help them make that happen. And they also realize that the function will be an anchor around their neck if they neglect it. They looked at that function purely as a cost center in the past and allowed it to lag behind the rest of the organization.

Now they are beginning to see that growing the company and improving in a substantial way requires a solid foundation built on strong accounting. They have come to realize that it is smart management to think of that function more strategically than they have in the past. They have decided to turn what some consider a necessary evil into a strength that makes the journey ahead much more likely to be a financially successful and rewarding one.

The other area that brings the score down is a lender that is unhappy on some level. In one company, the lender was somewhat irritated by the slow reporting the company provided each month but they were not kicking and screaming. The bigger problem was management could not provide insight into *why* the numbers were what they were. Working capital had been changing meaningfully during the year and the bank could never get an insightful answer as to why. So they were losing confidence not so much in the financial statements, but in management's lack of understanding of the changes happening in the numbers. And it is difficult to have a Confidence Factor score in the 9 to 10 range when you have a banker or a lender whose confidence in you is waning.

Generally speaking, the goal is to be between a 9 and a 10. A score between 7 and 9 means there is work to do. A score less than 7 means you have a big problem on your hands and you need to get about fixing it fast.

Insight Factor

The Insight Factor score is focused on the quality and insightfulness of your existing financial reporting process. It is a subtle but very important quality that helps instill confidence in the minds of lenders, investors, your board, and anyone else you share financial information with. This is where thinking strategically pays big dividends. Why just plop a package of financial information on these very important people when you can provide the information in a way that is thoughtful and helps instill confidence in their minds. That confidence becomes an asset that will help you achieve your growth objectives. It also enhances your credibility and helps you stand out as a company that has its act together.

What's missing in your current financial reporting process, and it creates an exciting opportunity for you, is it lacks *insight*. It misses a golden opportunity to use the monthly reporting package as a killer tool to instill confidence and credibility in the minds of the people receiving it.

Here's how that gets started in most companies. The bank or another lender wants financial statements. So you say, "Okay, they want financial statements – let's give them the financials." Sounds logical. The mindset starts with basically giving them what they asked for.

The opportunity though is in looking at their request from a more strategic perspective. You want to jump on their request for financial information by saying, "Excellent, we have an opportunity now to foster a unique relationship here. What a perfect time to plant the seeds of credibility and trust with these guys." When you do that your mind shifts into how to provide insightful information that helps you stand head and shoulders above their other customers.

So you provide summary information on the key drivers of financial performance in addition to just the financial statements. You provide comparisons to plan and prior year. You provide information in a side-by-side format so trends and direction jump off the page at them. You provide a forecast so they have a view of where you are going financially. You serve up valuable information for them on a silver platter. That's how you drive confidence and trust with lenders and investors.

And one thing you should know about lenders. Most lenders take the basic financial statements you provide and load them into some sort of financial analysis tool in order to make them more insightful. That requires work and time. When you provide a more insightful package to them they get even better information without having to do the extra work. *That gets their attention.* You stand out as a smarter company than the other customers they deal with every day.

Here are the six statements in this section of the assessment.

1. **You provide a monthly reporting package to lenders and owners**

   This statement is similar to the strategy in selling where sometimes you have to "Go for the no." In selling, especially in big-ticket items with a long selling cycle, some people believe you have to ask some questions and if you get a "no" then the prospect is not qualified and you don't end up wasting tons of selling time with them. (Not everyone believes in that advice but I have seen it work very effectively in certain businesses.)

   If you don't currently provide a monthly financial reporting package of some sort to lenders and owners then you can answer this with a zero (meaning NO). Then the other statements in this section get a zero as well and your Insight Factor score is, you guessed it, zero.

   If you provide a financial reporting package each month that you consider to be very useful, then your answer would be a 10. If you provide a package but it is not monthly or you know it needs to be better and more useful and relevant for the user, then just use your gut to provide your rating.

The next five statements relate to what is included in your monthly reporting package. They are all preceded by the words "The package contains." I have included that part of the statement so it is easier to see what each statement is referring to in your existing reporting package.

2. **The package contains: A short memo that answers the question "What happened and what's about to happen?"**

   A one- or two-page memo is a powerful way to simplify and summarize your financial results for the month. Do you provide one in your monthly reporting package? Picture in your mind each person that will be receiving this package. Imagine they receive the package and before they look at it they are asking themselves this question "I wonder how the month turned out? And I wonder where their results are headed?" The job of your monthly reporting package is to very quickly answer those questions for them. If they get to the answers quickly, then the package has done its job. If they have to dig and ask a bunch of follow-up questions, then it has failed to do its job. A one- or two-page memo is a fantastic tool.

3. **The package contains: Actual results for the 5 to 7 key drivers of financial performance**

   The typical financial reporting package just provides the basic financial statements (although many tend to leave out the cash flow statement, which is a big mistake). You provide real insight for the user, though, when you help them see and understand the handful of key drivers of financial performance. It promotes a deeper understanding of your business. It makes them smarter about how your business generates results. It helps them to more easily understand the parts of the business that have the most impact on your financial performance.

4. **The package contains: Current month and year-to-date results vs. plan and prior year**

   It is important to look at results for the year compared to both plan and the same period of the prior year. That raises a big question: Do you make it easy for the user to see how revenues, margins, expenses, and profitability compare to the plan and how they compare to last year? The comparisons don't have to be on the same page, but there needs to be a presentation in the package that gives the user a chance to see how actual results compare to the plan and how results compare to the same period in the prior year.

5. **The package contains: Insight into "What happened to the cash and what's about to happen to the cash?"**

   Ultimately your success in business is going to be determined by the degree to which you create and hang on to cash. Everything ultimately comes down to cash and cash flow. Cash is what pays the bills. Cash is what pays down the debt. Cash is what's required in order to invest and grow your company. Cash is ultimately what is going to help you and your family retire in style and comfort. But understanding and managing cash flow is not a straightforward process. Especially when you are trying to help investors and lenders understand what's going on with your company's cash flow. You have to take information from the financial statements, distill it down, and present it in a way that the financial statements, by themselves, do a poor job of. You want the reader of your financial reporting package to instantly understand what happened to the cash. And you want to do it in a way that highlights the key drivers of cash flow. People tend to think only in terms of profitability. But profitability and cash flow are not the same. You need visibility in terms of what happened to the cash, and what's about to happen to the cash.

6. **The package contains: Side-by-side view of actual and forecast monthly results down to the cash flow level**

   Something magical happens when a person sees monthly financial results side-by-side. Seeing actual results side-by-side, together with forecast results, provides amazing clarity. It instantly provides insight into trends and whether the numbers make sense or not. Very few companies provide this kind of unique and transparent view into their financial results. And I'm not just talking about the income statement here. I also mean the balance sheet is presented with each month side-by-side. And the same thing for cash flow. This may be the fastest way to create respect with the financial community (absent just sending them a big check for no reason)! Virtually no one is doing this for them, which makes it even easier, and makes it more powerful and impactful, when you serve it up for them on a silver platter.

What's the Norm?

My experience with clients is that most Insight Factor scores will be in the 5 to 6 range. Remember, the goal here is to be at a 9 to 10. That's a *big* gap. The reason the gap is not even wider is that most companies growing through the $20 million to $50 million revenue range have already started providing some form of financial information to the outside world – usually for the bank or lender or other investors they brought in along the way. So the fact that you are providing a financial package of some sort helps keep the score from going too much below 5.

The issue comes in because most companies miss the opportunity to turn the monthly reporting process into something more strategic. You want to use the monthly reporting process to enhance your credibility, influence, and trust with that audience. Make it super simple for them to understand the key drivers of your results. Provide comparisons of actual vs. plan so they can quickly see what's working and not working. Highlight the key drivers of cash for the month so they can see how you are managing all the different drivers of cash flow.

Provide them a view through the financial windshield of your business so they know not only what happened in the past but what's about to happen in the future. Take the opportunity to serve it up to them on a silver platter. That's how you drive confidence and trust with lenders and investors.

Accuracy and Speed Factor

This score could also be called the Trust Factor score. It is a great predictor of how well the users of your financials trust the information you provide. Trust is a huge part of your goal of creating confidence and credibility with those who are invested in one form or another in your financial success.

Consider this thought for a minute. Let's say someone asked you to invest some money in an idea they had. You like the person and you really want to help them. But you had this nagging voice in your head saying "I'm not really sure I trust what he is telling me. There's some inconsistencies here that I'm not sure I'm comfortable with."

If your brain is sending you signals that question whether you can really trust the information you are getting, it is going to make you unsure and uncomfortable all over. And that is *not* a recipe for saying "Yes."

Same way in your company.

You dramatically increase your odds of success when you purposefully and strategically plant seeds of trust with everyone interested in, and invested in, your financial success.

This is especially true for those people who are partners with you in providing the cash and the financial backing to help you and your company grow and succeed.

Here are the six statements in this section of the assessment.

1. **The numbers in the monthly financial statements are accurate**

   This sounds like a no-brainer. But it's not. There are a lot of businesses, especially those closely held, where this is a real problem. This speaks to the quality of the accounting processes and controls used to gather, record, and report transactions in your accounting system. That process has to be solid and very tightly managed. Bad numbers will kill your credibility with lenders and investors. And bad numbers will cause your management team to make bad decisions. Kind of like giving your doctor inaccurate information about an ailment you have and wondering why the diagnosis (and treatment) come back wrong. Or driving along, following the directions on your GPS, only to find out the wrong address had been entered in the GPS. The directions you are following are taking you to a place you don't want to go.

2. **Financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP)**

   This point goes past whether your numbers are accurate. The question here is whether your financial statements are prepared in accordance with GAAP. This is one of the larger mistakes companies make when providing financial statements outside the company. Owners tend to provide monthly or quarterly financial statements to lenders and investors and let their CPA firm "adjust" the financials when they come in to do their annual review or audit. That's a big mistake. It undermines your credibility. The financial community concludes you are not professional enough to provide GAAP financials each month. Remember, they are experienced financial people. They know what they want. And they expect you to be sharp enough to provide them GAAP financials.

3. **In the annual review or audit of your financial statements, the CPA firm makes very few adjustments**

   When your CPA firm does their year-end work and they have to make lots of adjustments to your financial statements, what they are doing is *fixing your mistakes*. This is either because transactions were recorded improperly or because transactions were not recorded at all. Basically, when points #1 and #2 are a problem, the CPA firm has to do the work for you so they have good financial statements to work with. And that means the financial statements you have been using to manage the business all year, and providing to lenders and investors all year, have been *wrong*. Your goal is to provide accurate and complete financial statements every month. That means there should be no need for the CPA firm to come in and "adjust" your financial statements. Why? Because you did them right the first time. And you won't have to experience the embarrassment of having to tell everyone that the financial statements you provided them were wrong (and explain to them what the CPA firm had to fix for you).

4. **Each account on the balance sheet is well supported and documented**

   Are the various amounts on your balance sheet well supported? Do you know what makes up those balances? The reason you want a super clean balance sheet is because that is where nasty financial surprises tend to hide. You seldom walk into a really nice home only to find a dirty, messy, disorganized interior once you walk in. Here's a little secret that few owners truly understand. Financial statements prepared in accordance with GAAP are full of estimates. And the balance sheet is where many of those estimates reside (and accumulate). It requires the time and attention of someone who understands financial statements to ensure those estimates don't accumulate (and eventually rot and die). The accounts on the balance sheet need to be monitored, evaluated, and documented every month to make sure they are as accurate as possible.

5. **Management reviews the monthly financial statements to ensure accuracy before they are published**

   It's important for management to do a detailed review of the financial statements every month. You want to understand what's in there. You want to be in tune with how the results compare to plan and how they compare to what you were expecting for the month. You want to ask questions. Why is this number so high? I was expecting that number to be different. You don't want to fly at the 30,000-foot level and just assume that everything is okay. It's going to help you later when one of your lenders or investors has a question and they ask you about it. You should be able to answer most questions they have very quickly because you know what's going on relative to the plan and relative to what you expected the financial results to be.

6. **Financial statements are provided to lenders and investors on or before the 10th calendar day each month**

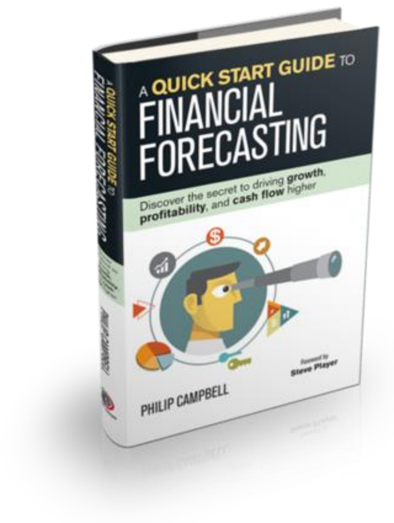
   An important part of creating trust and credibility with the users of your financial statements is to provide your reporting package promptly and predictably every month. I don't get too hung up on whether it's the 10th calendar day or the 15th calendar day. We're not trying to create any awards for the fastest financial closing process (neither of those dates would accomplish that). The key is to choose the date and provide the statements on or before that date religiously every month. That way lenders and investors/owners always know when to expect your financial reporting package. It demonstrates discipline and predictability in the way you run the financial side of the business. It helps build confidence and trust. It helps you stand out in their minds as different (and better) than many of the companies they deal with. And that is an important part of your goal here.

What's the Norm?

My experience with clients is that most Accuracy and Speed Factor scores will be in the 5 to 8 range. What generally drives their score down is an overreliance on the outside CPA firm to make year-end adjustments to the financial statements. When you do that, you are publishing monthly financial statements that are incomplete and inaccurate. Sometimes it's leaving depreciation and amortization entries for the CPA firm. Or saving decisions on which expenditures must be capitalized to the end of the year. Or applying debt service payments to principal, and then having the CPA firm record the allocation between interest and principal. And a range of other examples where you leave the "accounting details" to the CPA firm after the year is over. This is a common practice in smaller companies and one you need to fix as you mature as a company and attempt to create credibility and trust with lenders and investors.

Another area that drives scores down is not paying close attention to the balance sheet. Most of the focus from management is generally on the income statement. So the balance sheet does not get much attention – sometimes even from the accountants. It's a huge blind spot for many companies because managing cash flow, and managing profitability, requires that you know exactly what's going on in each of the balance line items. Ignoring inventory, receivables, capital expenditures, payables, and a host of other balance sheet accounts is the ticket to nasty surprises and poor cash flow.

A Quick Start Guide to Financial Forecasting



I hope you enjoyed reading this complimentary chapter from the book **A Quick Start Guide to Financial Forecasting: Discover the Secret to Driving Growth, Profitability, and Cash Flow Higher.**

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