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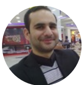

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How to financial forecasting in 9 steps

Financial planning can be define as a group of plans to get necessary financing resources and use it.
That's mean identify the financial needs in specific period. And we most know that a financial planning one of most important elements of organization financing strategy, because it convert this strategy to practical steps we can apply it. Financial planning depends on financial forecasting which basically depend on organizations sales, maybe one question come on our minds, why we chose the sales to financial forecasting?. Because it has a relation with organizations assets and liabilities.to descript the relation between sales and asset we can said that organization increase assets when it tries to increase the sales. In other words when organization starts product, it needs to increase the material inventory which is necessary for production and to increase the sales. In addition, the organization sales will not be necessary in cash, it can be on credit, that refers to increasing in organizations credit balance. From other side the organization need to increase the financing resources to accomplish the increasing sales goal, which shows to us the relation between sales and liabilities.

Financial forecasting by using the sales percentage method;

1. Identify the budget accounts which is changeable with the sales.
2. Find the budget accounts percentage by divide it on the recently sales (S).
3. Collecting the asset and liabilities percentage (A/s & L/s).
4. Find the E.F.R (External funds required) by using incoming formula;
   E.F.R = $(S_2 - S_1)$ (A/S – L/S) - (MBS_2).
   E.F.R: External funds required.
   S_1: recently sales.
   S_2: forecasted sales.
   A/S : total asset percentage that is changeable with the sales.
   L/S: total liabilities percentage that changeable with the sales.
   M: marginal profit percentage.
   B: returned earning percentage.
5. Now regroup the budget accounts percentage in new budget (forecasted budget).
6. Multiply each account percentage by forecasted sales sum.
7. Regroup the budget account that isn't changeable with the sales in forecasted budget.
8. We most edit returned earning sum, by add the (MBS_2) sum to the returned earning balance.
9. Add E.F.R sum with liabilities in forecasted budget to balance both credit and debt side.