Financial Forecasting and Modeling

4th Edition

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 18
Planning Deviations 18
Forecasting Traps 18
Setting Forecast Boundaries 19
Detecting Cresting Sales 19
Evaluation of Forecasts 21
Responsibility for Forecasting 23
Summary 23
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 42
Debt Payable Modeling 43
Equity Modeling 43
Balancing the Model 43
Covenant Monitoring 44

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 52
Review Questions 53
Review Answers 54

Chapter 3 – Cash Forecasting 55
Learning Objectives 55
Introduction 55
The Cash Forecast 55
The Short-Term Cash Forecast 56
The Medium-Term Cash Forecast 59
The Long-Term Cash Forecast 59
The Use of Averages 60
Automated Cash Forecasting 60
The Reliability of Cash Flow Information 61
The Impact of Special Events 62
The Foreign Currency Cash Forecast 63
Cash Forecast Reconciliation 63
Summary 63
Review Questions 64
Review Answers 65

Chapter 4 – Microsoft Excel Modeling 67
Learning Objectives 67
Introduction 67
Moving Averages Function 67
Exponential Smoothing Function 69
Linear Trend Function 69
Polynomial Trend Function 70
Regression Analysis 71
Iterative Calculations Function 74
Data Table 74
Goal Seek 77
Scenario Manager 77
Summary 80
Review Questions 82
Review Answers 83

Glossary 85

Index 87