How to Do a Pro Forma Statement

You may be wondering what is a "pro forma” income statement?

Simply put, it’s a future or projected income statement, or it can even be used to restate financial books in an unofficial way. For example, a business may use a pro forma financial statement to show what a businesses profit was if it sold off an arm of the company.

But enough with what a “pro forma” is, you care about how to quickly create a Pro Forma Income and Financial Statement.

How to Create a Pro Forma in 4 Steps

To start creating a pro forma statement, begin with an income statement from the current year. Know where you stand from a current cash perspective.

Step 1:

Calculate revenue projections for your business. Make sure to use realistic market assumptions to write an accurate pro forma statement. Research and speak to experts to determine what a normal annual revenue stream is, as well as cash flow and asset accumulation.

Step 2:

Estimate your total liabilities and costs. Your liabilities are loans and lines of credit. Your costs will

be your lease, employee pay, insurance, licenses, permits, materials, etc. To create the first part of your pro forma you'll use the revenue projections from Step 1 and the total liabilities and costs found here.

During this time, put a lot of thought into each expense. This is an opportunity for you to evaluate if every cost is necessary, and what you can cut.

Step 3:

Estimate cash flows. This portion of the pro forma statement will project your future net income, sale of assets, dividends, issuance of stocks, etc. This is the second section of your pro forma financial statement.

Step 4:

Create the chart of accounts. This chart of accounts will make up the pro forma statement for a 3 to 5 year period. Year one will broken down into monthly increments, while the following years (years 2 and 3) will be broken down by quarter, and years 4 and 5 are broken down annually.

Final Thoughts on Creating Pro Forma Statements

Remember that creating Pro forma income and financial statements are essentially best guesses. Remember to continually update the projections in your pro forma to ensure ongoing accuracy.