FIN 470: Financial Analysis in Excel

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Group Excel Assignment 3, *Pro Forma* Forecasting

Remember that for credit all Excel spreadsheets must conform to the Excel Guidelines.

CAUTION: Capital IQ (as well as other web sites) automatically downloads data as a 1997-2003 (xls) format Excel file. Immediately save your file in the current (xlsx) format, since some recent Excel features are not available in the earlier format.

Open your spreadsheet from Assignment 2 and save it as "FIN 470 A3 Group X (Fall22)".

Create a new worksheet called, "Pro_Forma".

On this worksheet you are to create a *pro forma* income statement and balance sheet (and the corresponding ratios) for next quarter. (*Pro forma* statements are just estimates of what financial statements will look like in the future.)

Use the following assumptions about next quarter:

1. Sales will increase by 3%. (Put the 3% in a separate cell and make a reference to it when you want to use it in a calculation.)
2. Costs (and other items) that are associated with sales, e.g., materials, will increase at the same rate as sales.
3. Fixed costs will not change.
4. The tax <u>rate</u> will not change. (NOTE: The dollar value of tax paid will change, but the rate of tax will remain the same.)
5. Don't forget to add retained earnings from the previous income statement to retained earnings on the *pro forma* balance sheet.
6. Calculate the same dynamic ratios for the *pro forma* statements as you did in the previous assignment. (NOTE: These must be dynamic since they may change after you make the adjustments in the next step.)
7. **THE PLUG**: After you have done this (even if you have done it perfectly), your balance sheet will no longer balance. You will need to adjust your liabilities so that they are equal to total assets. The easiest way to do this is to issue or repurchase stock until the statement is balanced. Your final spreadsheet should

show an adjustment to the firm's stock that balances the balance sheet. (The plug is complicated and there are numerous ways to solve the imbalance, so we will pay special attention to this issue in class.)