

Pro Forma Income Statement



ScholarlyHelp

Assignment:

Assume a business and construct a forecasted income statement and balance sheet for the company.

Assume the revenues and costs of the company for the preparation of a pro-forma income statement, and use assumed figures for assets and liabilities to develop a pro-forma balance sheet.

Pro Forma Income Statement

An income statement is one of the five financial statements displaying a company's total income and expenditures for a specific period. It also indicates the profitability of the company during that certain reporting period. A company's income statement projections propose an idea of the profitability for the foreseeable future (Nishikawa et al., 2016).

ABC company's future income statement is based on certain expected events and transactions. It is an interactive management tool that offers a forecast of the company's future performance based on a set of rational and realistic assumptions. The pro forma income statement of ABC company's restaurant is shown below:

ABC company's Pro-Forma Income Statement

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	938,944.00	1,561,492.00	1,622,390.00	1,685,664.00	1,751,404.00
Cost of Goods Sold	(282,880.00)	(448,692.49)	(635,263.81)	(878,029.88)	(1,189,837.21)
Gross Profit	1,221,824.00	2,010,184.49	2,257,653.81	2,563,693.88	2,941,241.21
<u>Operating expenses:</u>					
Salaries	(348,636.00)	(362,581.40)	(377,084.70)	(392,168.10)	(407,854.80)
Inventory Holding Costs	(2,347.36)	(3,903.73)	(4,055.98)	(4,214.16)	(4,378.51)

Credit Card Fees	(23,473.60)	(39,037.30)	(40,559.76)	(42,141.59)	(43,785.11)
Other Variable Cost	(614,716.04)	(792,720.06)	(991,968.37)	(1,247,920.03)	(1,573,440.79)
Rent Expense	(630,000.00)	(630,000.00)	(630,000.00)	(630,000.00)	(630,000.00)
Advertising and Marketing	(15,000.00)	(10,000.00)	(10,000.00)	(10,000.00)	(10,000.00)
Insurance Expense	(1,000.00)	(1,000.00)	(1,000.00)	(1,000.00)	(1,000.00)
Total Operating Expense	(1,635,173.00)	(1,839,242.49)	(2,054,668.81)	(2,327,443.88)	(2,670,459.21)
Operating Income	(413,349.00)	170,942.00	202,985.00	236,250.00	270,782.00
Interest Expense	(13,320.00)	(13,320.00)	(13,320.00)	(13,320.00)	(13,320.00)
Earnings before Tax	(426,669.00)	157,622.00	189,665.00	222,930.00	257,462.00
Tax Expense	-	42,558.10	51,209.42	60,190.80	69,514.82
Earnings after Tax	(426,669.00)	115,063.90	138,455.58	162,739.20	187,947.18

Assumptions and Estimations

Following assumptions and estimations are considered for preparing ABC company's pro forma income statement for the next five years.

- The pro forma income statement is set up according to a contribution format.
- Variable and fixed costs are separated in a contribution income statement to display the contribution computation separately.
- The contribution income statement is only an instrument for internal financial planning and should not infer that it reflects accounting IFRS standards or framework.
- A tax rate of 27% is applied to the PBIT to achieve net income.

- The wages are supposed to fluctuate depending on sales, and the organization may recruit or dismiss based on business volumes.

Pro Forma Balance Sheet

A balance sheet is one of the five essential financial statements showing a picture of the financial data at a specific reporting period. It encompasses every journal entry since the beginning of the business. It displays what the company owns, what it owes to its lenders, and what amount of money it has retained for the owners (Barton et al., 2002).

The future balance sheet for ABC company's restaurant is based on certain predicted occurrences and transactions. It depicts the future standing of the company in the coming five years. Below is ABC company's pro forma balance sheet:

ABC company's Pro-Forma Balance Sheet:

	Year 1	Year 2	Year 3	Year 4	Year 5
Assets:					
Cash	938,944.00	1,561,492.00	1,622,390.00	1,685,664.00	1,751,404.00
Inventory	21,335.00	26,756.00	29,427.00	32,364.00	35,591.00
Total Current Assets	960,279.00	1,588,248.00	1,651,817.00	1,718,028.00	1,786,995.00
Non-Current assets	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
Total Assets	970,279.00	1,598,248.00	1,661,817.00	1,728,028.00	1,796,995.00
Liabilities and Owners' Equity:					
Current Liabilities	30,133.00	45,697.30	47,219.76	48,801.59	50,445.11

Accounts Payable	188,586.67	196,130.67	203,975.34	212,134.35	220,619.73
Total Current Liabilities	218,719.67	241,827.97	251,195.10	260,935.94	271,064.84
Non-Current Liabilities	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00
Total Liabilities	318,719.67	341,827.97	351,195.10	360,935.94	371,064.84
Owners' Equity	651,559.33	1,256,420.03	1,310,621.90	1,367,092.06	1,425,930.16
Total Liabilities and Equity	970,279.00	1,598,248.00	1,661,817.00	1,728,028.00	1,796,995.00

Assumptions and Estimations

The assumptions and projections listed below are considered for ABC company's pro forma balance sheet for the next five years.

- The current liabilities reflect the credit card fee obligations and the interest charges of the long-term loan.
- Non-current liabilities show the long-term loan amount for running the business activities smoothly.
- The remaining amount is considered to be the funds retained for the owners' share. Owners' equity will reflect the retained earnings for the restaurant owners.