

## Chapter 4

# Financial Planning and Forecasting

### LEARNING OBJECTIVES

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After reading this chapter, students should be able to:

- Briefly explain the following terms: mission statement, corporate scope, corporate purpose, corporate objectives, and corporate strategies.
- Briefly explain what operating plans are.
- Identify the six steps in the financial planning process.
- List the advantages of computerized financial planning models over “pencil-and-paper” calculations.
- Discuss the importance of sales forecasts in the financial planning process, and why managers construct pro forma financial statements.
- Briefly explain the steps involved in the percent of sales method.
- Calculate additional funds needed (AFN), using both the projected financial statements approach and the formula method.
- Explain the conditions under which the percent of sales method should not be used.
- Identify other techniques for forecasting financial statements discussed in the text and explain when they should be used.