FORECAST OF PROFIT AND LOSS, BANK BALANCE AND CREDIT POSITION

(Expressed in thousands)

RESPONSIBILITIES AND LEDGER ACCOUNTS	DEC 31	JAN		FEB		MCH		APR		MAY		JUN		JULY 1
ASSETS	A	A	C	A	C	A	C	A	C	A	C	A	C	A
MANAGEMENT														
Bank Balance	500	500	500			743	743			161	161	95	95	1594
Notes Receivable Due Feby	200	200		200	200									
" " " Apr	300	300		300		300		300	300					
" " " June	600	600		600		600		600		600		600	600	
Accounts Receivable Dec 31	5400	5400	3000	2400	1800	600	600							
" " January		2000		2000	800	1200	800	400	400					
" " Feby				2000		2000	800	1200	800	400	400			
" " March						3000		3000	1200	1800	1200	600	600	
" " April								2500		2500	1000	1500	1000	500
" " May										3000		3000	1200	1800
" " June												2500		2500
Income from Outside Investments		200	200					200	200					
Discount on Purchases		10	10	10	10	10	10	20	20	20	20	10	10	
Fixed Capital	15000	15000		15000		15500		16000		16000		16000		16000
PRODUCTION														
Materials and Work in Process	4000	3900		3800		3700		3600		3500		3400		3400
Finished Products	5000	5300		5600		5300		5300		5000		5000		5000
Total Assets and Collections	31000	33410	3710	31910	2810	32953	2953	33120	2920	32981	2781	32705	3505	30794
Total Liabilities and Payments	31000	33050		31390	2067	32073		31770	2759	31261	2686	30725	1911	28814
Net Profit and Bank Balance		360		520	743	880		1350	161	1720	95	1980	1594	1980
LIABILITIES	L	L	P	L	P	L	P	L	P	L	P	L	P	L
MANAGEMENT 20.8 + 5%														
Bank Deficiency				31	31			198	198					
Notes Payable Due Jany 10	1000	1000	1000											
" " " Mch 5	1000	1000		1000		1000	1000							
Accounts Payable Dec. 31	800	800	600	200	200									
Increases to Fixed Capital						500		1000	5000	500	500			
Capitalization	20000	20000		20000		20000		20000		20000		20000		20000
Surplus	7145	7145		7145		7145		7145		7145		7145		7145
Fixed Charges	150	200	150	100		150		200	150	100		150		150
Interest		15	15	15		30	15	30		45		60		60
Operating	50	293	243	293	243	343	293	318	268	343	293	318	268	50
PRODUCTION 20.8 + 50%														
Materials	625	1150	625	1050	525	1050	525	1050	525	1050	525	1050	525	525
Labor		500	500	500	500	500	500	500	500	500	500	500	500	
Depreciation		100		200		300		400		500		600		600
Operating	80	313	233	313	233	313	233	313	233	313	233	313	233	80
DISTRIBUTION 84 + 15%														
Discounts		200	200	200	200	300	300	250	250	300	300	250	250	
Reserves	125	174	40	183		282	150	206		305	200	179		179
Operating	25	160	135	160	135	160	135	160	135	160	135	160	135	25
Total Liabilities and Payments	31000	33050	3741	31390	2067	32073	3151	31770	2759	31261	2686	30725	1911	28814
Total Assets and Collections			3710				2953							
Net Loss and Bank Deficiency			31				198							N

Exhibit N

both large and small concerns alike result from operations on a scale beyond their financial resources. Whoever may have the direct responsibility for the broader phases of finance, the separate functions of finance should be delegated to certain organization units just as specifically as the separate functions of operating, and the effectiveness of one group should be followed as closely as the other.

Under ordinary methods of accounting, it is difficult to forecast the financial effects of operations, but with operating standards such as are contained in Exhibit H, the financial results on any given basis of operation are comparatively easy to determine. We can forecast not only the profits and losses reasonably to be expected, but also the bank balance and credit position of the company at the close of each month for some months ahead.

Exhibit N—Forecast of Profit and Loss, Bank Balance and Credit Position

In this exhibit we have a forecast of the financial effects of operations on the basis of the maximum sales given in Exhibit H. To make this statement we need only to know, in addition to the information contained in Exhibit H, the subdivision of sales by months, which will already have been made in connection with the sales quota, and the experience of the company in the matter of collection of accounts receivable.

The first column represents the major subdivisions of responsibilities and duties used throughout all of the statements—Management, Production and Distribution. Under each of these are listed the items through which these major responsibilities affect the financial statement.

The second column represents the status of the company as of December 31, and the double columns to the right of this represent a forecast of the status for each of the various months from January to and including June. Under each month the first column indicates "Assets" or "Liabilities," and the second column "Collections" or "Payments." The last column represents a forecast of the status as of July 1. This statement may be projected as far into the future as desired.

Dealing with the assets, the first item under Management is Bank Balance. This is shown as an asset on December 31, and as both an asset and collection in each succeeding month. In making a forecast on a prescribed basis it often happens, as in this case, that instead of a bank balance, there is a bank deficiency. A deficiency is shown under Liabilities.

The second item is Notes Receivable. They are shown as an asset on December 31, and in each month up to the date of payment when they appear also as a collection and thereafter disappear.

The third item is Accounts Receivable. They are shown as an asset on December 31, and in lesser amount in each succeeding month according to probable collections, computed on the basis of experience. The amount collected in each month is entered as a collection, and the balance carried forward as an asset to the succeeding month.

The expected sales and collections for each month are entered as accounts receivable and dealt with in the same way, each on a separate line.

The fourth item is Income from Outside Investments. These appear both as an asset and a collection in the month in which they are received.

The fifth item is Discount on Purchases. These also appear both as an asset and a collection in the month in which the discount is charged.

The sixth item is Fixed Capital. This appears in a lump sum as an asset under December 31, and also in increased or decreased amount as it may be added to or taken from in each month thereafter.

The first item under production, is Materials and Work in Process. This appears as an asset on December 31, and in each succeeding month in increased or decreased amount according to the difference between the material and labor put into work and that represented by the work completed. In this exhibit we have assumed that the inventory will be reduced $100,000 in each month.

The second item is Finished Products. These are shown as an asset on December 31, and in each succeeding month in increased or decreased amount according to the difference between production and sales. In this case production is assumed to be maintained on a uniform basis sufficient to take care of $2,500,000 of sales at list in each month, whereas the sales are assumed to vary as indicated under Accounts Receivable. The variation in Finished Products is, therefore, 55 per cent[1] (being the Inventory Cost as shown on Exhibit M) of the difference between $2,500,000 and the sales.

Dealing with Liabilities, the first item under Management is Bank Deficiency. This has already been explained under Assets.

Notes and Accounts Payable are dealt with in the same way as Notes and Accounts Receivable.

[1] In Exhibit N it happens to be computed at 60 per cent instead of 55 per cent as in Exhibit M.