

Pro Forma Financial Statements

Pro forma financial statements are projected or forecasted financial statements. Pro forma financial statements are usually generated after a thorough horizontal and vertical analysis of the most recent financial statements and historical financial statements.

Of particular importance in this endeavor is financial ratio analysis. By relating various financial statistics to certain important counterparts and complements, you can augment and amplify the insight each provides and uncover critical information regarding a firm's profitability, efficiency, financial strength and cost. Knowledge about these qualities is instrumental and irreplaceable in creating pro forma financial statements and determining firm value.

Even if you feel you are not good at this type of undertaking, you should give it a try. It is impossible to engage in this type of exercise and not learn about a firm. Furthermore, it is impossible to do this kind of exercise and not get better at it. Even if you are not musically inclined, when you practice a musical instrument, your music skills will improve. The journey is its own reward. If your forecasts also prove prescient, then it is a bonus.