

# Analyzing pro forma statements critical thinking examples

[Business](#), [Company](#)



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The company intends to introduce new products into the market. This will boost the sales and consequently the profit margin of the business.

### **Pro forma balance sheet for the next 5 years**

The company needs lots of finance in the near future. The company will have to borrow from investors so as to acquire more assets that are required in the production and distribution of the product. This will see the assets increase gradually over the years as the company expands its activities. With time the company will have collected most of the money that it owes clients. As the assets increase the net depreciation will also increase. The company will have to allocate more resources to maintenance of machines, vehicles and plants so as to improve their life span while at the same time reducing depreciation expense. After stabilizing the company will settle some of its debts using the profits it has earned thus liabilities reduce. This will see the stockholders equity increases while the company registers an overall growth.

## **Pro forma income statement for the next five years**

The new product is expected to increase the sales of the company throughout the 5 year period. However, the cost of sales will increase as the company will have to purchase more materials that are required in the production process. With time, the cost will reduce as the company will have fixed enough production equipment thus making it less costly to operate. Production and selling of the new product will increase the operating expenses of the company. However, the company can reduce the expenses through effective management of the available resources. The pretax profit will be increasing as sales increase and overall expenses reduce. This will see the net profit increase. The money can be invested in other activities to ensure that it is ever in circulation and growing.

## **References**

Rutberg, Sidney. " Pro Forma—The 'What If' Balance Sheet that Gives Companies a Second Chance." WWD. April 19, 1993.

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