

Forecasts vs. Projections: What's the Difference?

Financial statements look at historical performance. But there are times when you want forward-looking reports to help your business make strategic decisions. Creating forecasts and projections will give you the financial data you need.

Let's go over the difference between a forecast and a projection.

The terms “forecast” and “projection” are sometimes used interchangeably. But there's a noteworthy distinction – a forecast represents expected results based on the *expected* course of action. These are the most common type of prospective reports for companies with steady historical performance that plan to maintain the status quo.

On the flip side, a projection estimates the company's expected results based on various *hypothetical* situations that may or may not occur. These statements are typically used when management is uncertain whether performance targets will be met. They evaluate results over a longer period if there is a chance that customer demand or market conditions could change.

Let's review the components of these financial statements.

- Regardless of whether you opt for a forecast or projection, the report will generally be organized using the same format as your financial statements with an income statement, balance sheet, and cash flow statement.
- Most prospective statements conclude with a statement of key assumptions that explain the numbers.
- Many assumptions are driven by your company's historical financial statements, along with a detailed sales budget for the year.
- Instead of relying on static forecasts or projections — which can quickly become outdated in a volatile marketplace — some companies now use rolling 12-month versions that are adaptable and look beyond year-end. This helps you identify and respond to weaknesses in your assumptions, as well as unexpected changes in the marketplace.

Planning for the future is an important part of running a successful company. While no forecast or projection will be 100% accurate, they do offer fresh, objective insights about what may lie ahead for your business.