Historical Financial Reporting vs. Future Financial Reporting: The Why's and How's

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There are two main types of financial reporting conducted by Los Angeles and Southern California businesses: historical reporting, which looks back at past financial performance, and predictive reporting, which proactively looks ahead to future financial performance.

While the vast majority of businesses concentrate most of their efforts on historical reporting, predictive future reporting provides more value by enabling executives to be more proactive in their financial operations and decisions.

If your clients are focusing most of their time and attention on historical, instead of predictive, reporting, you can serve a valuable role by helping them understand the difference — and then shift their attention to focusing more on the latter.

What's the Difference?

Historical financial reporting is the preparation of traditional financial statements: the balance sheet, income statement (or profit and loss statement), and cash flow statement. The characteristics of traditional historical reporting include the following:

- Looks backward, instead of forward.
- Is delivered after period closings.
- Is not timely — events have already happened, so there's little opportunity to adjust.
- Data is less actionable by executive management.
- Is less inclusive of non-financial operational data.
- Offers a limited view and is narrow in scope.

Future predictive reporting is the preparation of forecasts and projections based on objective and supportable assumptions. The most basic forecast prepared by most companies is the annual budget, which details costs, expenses, sales, revenue and profits for a specified future period of time.

Future reporting should go beyond just an annual budget to make these forecasts and projections for a period of between three and five years. This, in turn, will provide a roadmap your clients can follow (and gauge their progress against) to meet their long-range strategic goals.

The cash flow forecast is especially important. By projecting their future cash flow on a monthly basis, your clients will be able to spot and plan for future cash flow shortages well in advance. This may include obtaining a loan or line of credit from their bank — and the sooner they can anticipate this financing need, the better prepared they can be to meet with their banker by demonstrating how they plan to use the money and how and when they will pay it back.

The characteristics of future predictive reporting include the following:

- May include critical success factors and KPIs.
- Provides information in real time/near time.
- Is much more actionable.
- Allows executives to see where the company is compared to targets.
- Provides more options to fine tune and adjust the company's course in the future.
- More clearly identifies risks and opportunities.
- Allows more accountability, since metrics can be linked to specific initiatives or departments.
- Is more inclusive of non-financial operational data.
- Offers a broader, big-picture view and a high-level scope.

Concluding Thoughts

Most businesses concentrate the bulk of their efforts on historical financial reporting, which looks back at past financial performance through the compilation of traditional financial statements. While this is important, businesses shouldn't stop here — they should also perform future predictive reporting, which proactively looks ahead to future performance. This type of reporting provides more value by enabling executives to be more proactive in their financial operations and decisions.

If your clients are focusing most of their time on historical reporting, you can serve a valuable role by helping them shift their attention to predictive future reporting. An outsourced CFO services firm can help your clients understand the differences between these different types of reporting and reap the benefits from future predictive reporting.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives at small and mid-sized companies in Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we're passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.