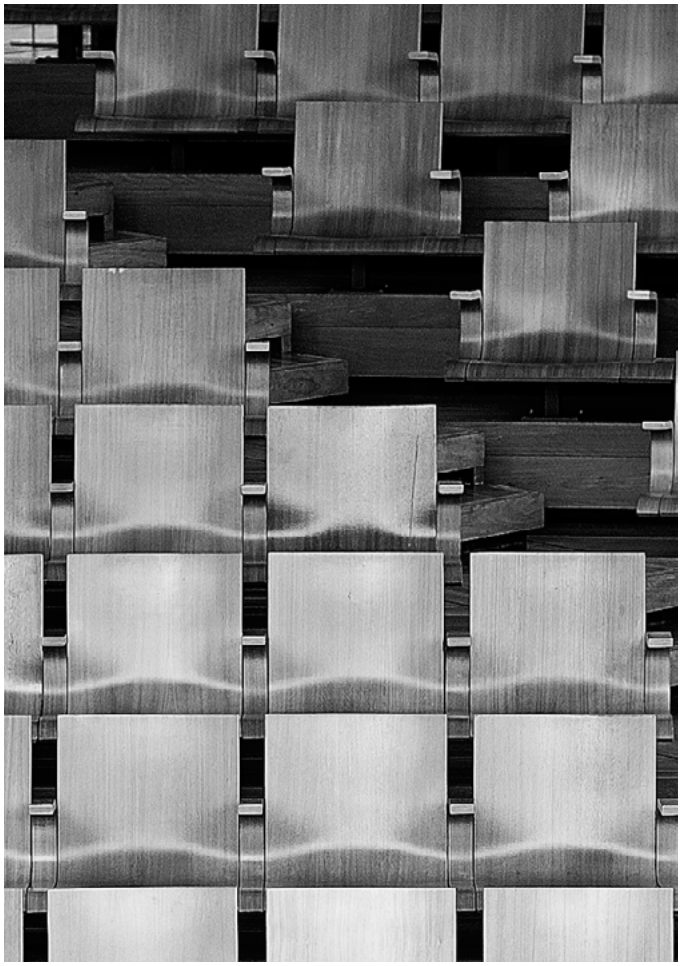
KOUSTAS+CO

CHARTERED ACCOUNTANTS

3-WAY PROJECTION MODEL



the WHAT

A 3-way Projection Model—sometimes referred to as a cash flow forecast—is so called because it interlinks and reconciles the results contained within the 3 key business financial reports, namely:

- Balance Sheet
- Profit & Loss Statement
- Cash Flow Statement

Once a 3-way projection model has been constructed, a business is not only able to to understand—in real-time—the impact of implementing its budget and/or strategic plan on the Profit & Loss Statement (the most basic and common tracking measurement) but importantly, how the Balance Sheet and all important Cash Flow Statement will be impacted.

The construction of a robust 3-way projection model is the essential first-step in the evolution of any serious business' reporting arsenal.

the WHY

In an age of global competition, more restrictive access to credit and generally, more challenging trading conditions—it is imperative that businesses have complete transparency and visibility over their current and future financial performance.

Many lending institutions are now demanding that a 3-way projection model be submitted as part of a finance application and/or for the monitoring of debt covenants as financiers are increasingly focused on the understanding the strength of a business' Balance Sheet.

Apart from financier-imposed requirements, two other common reasons for a business to have a 3-way projection model constructed include evaluating whether to pay for the implementation of a significant infrastructure upgrade (e.g. technology) via 3rd party finance or from its own cash reserves, and efficient resource management (e.g. purchasing stock, hiring of staff, etc).

TO LEARN MORE
...about how we can provide you with expert financial support,
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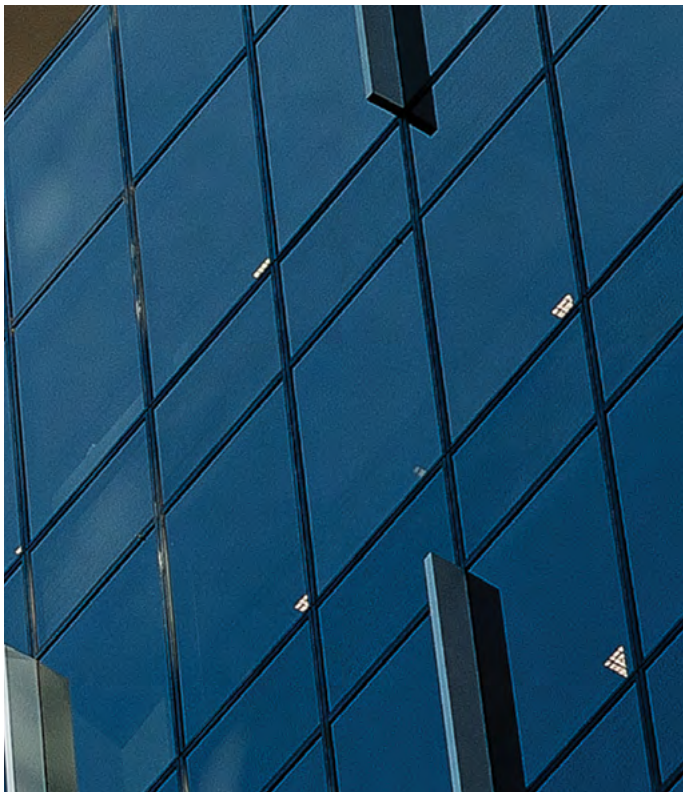
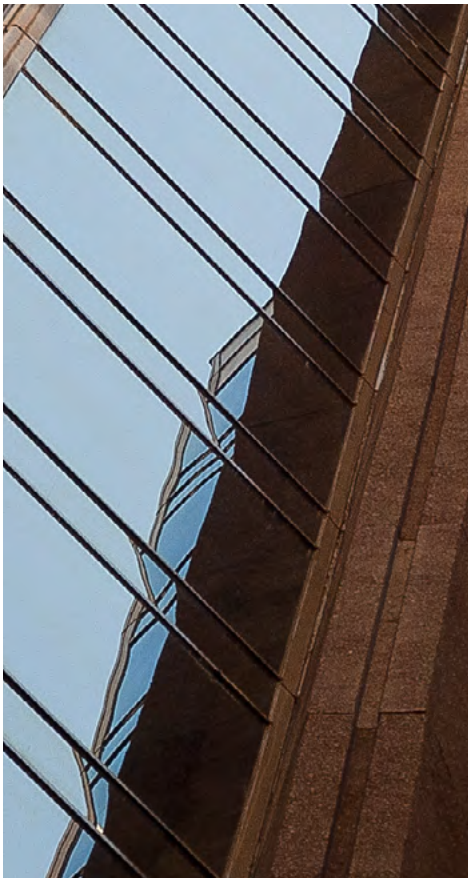
the HOW

Utilising our extensive knowledge gained from working with different businesses and industries, we have developed a thorough yet flexible methodology for constructing our 3-way projection models. Whilst unique to each business' circumstances, our core methodology is based around detailed questionnaires and sophisticated data modeling techniques. By spending quality time with the business owner(s) and other key stakeholders if appropriate, we are then able to construct and deliver a robust model that will enable the business to understand the financial impact of each and every decision—before they actually implement it.





our POINT *of* DIFFERENCE

It's important to note that the construct of the 3-way projection model is rarely the end of the process. A robust model should incorporate functionalities that allow the model to be 'tweaked' over time to reflect that changing nature of the business' trading activities/life cycle and/or changes in its broader trading environment. Similarly, the business' financiers may impose additional covenants that need to be measured and monitored via the model.

With this in mind, the team at Koustas & Co are regularly called upon to provide 'revisionary' services and increasingly, to ensure that the model is being utilised as part of the business' general management process. This is often achieved by way of members of the Koustas team regularly attending management meetings.

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