7. Pro forma

The term pro forma (Latin for "as a matter of form" or "for the sake of form") or adjective "pro-forma" is most often used to describe a practice or document that is provided as a courtesy and/or satisfies minimum requirements, conforms to a norm or doctrine, tends to be performed perfunctorily and/or is considered a formality.

7.1 Accounting

The pro forma accounting is a statement of the company's financial activities while excluding "unusual and nonrecurring transactions" when stating how much money the company actually made. Expenses often excluded from pro forma results include company restructuring costs, a decline in the value of the company's investments, or other accounting charges, such as adjusting the current balance sheet to fix faulty accounting practices in previous years.

There was a boom in the reporting of pro forma results in the USA starting in the late 1990s, with many dot-com companies using the technique to recast their losses as profits, or at least to show smaller losses than the US GAAP accounting showed. The U.S. Securities and Exchange Commission requires publicly traded companies in the United States to report US GAAP-based financial results, and has cautioned companies that using pro forma results to obscure US GAAP results would be considered fraud if used to mislead investors.

7.1 Business

7.1.1 Financial statements

In business, pro forma financial statements are prepared in advance of a planned transaction, such as a merger, an acquisition, a new capital investment, or a change in capital structure such as incurrence of new debt or issuance of equity. The pro forma models the anticipated results of the transaction, with particular emphasis on the projected cash flows, net revenues and (for taxable entities) taxes. Consequently, pro forma statements summarize the projected future status of a company, based on the current financial statements. For example, when a transaction with a material effect on a company's financial condition is contemplated, the finance department will prepare, for management and board review, a business plan containing pro forma financial statements demonstrating the expected effect of the proposed transaction on the company's financial viability. Lenders and investors will require such statements to structure or confirm compliance with debt covenants such as debt service reserve coverage and debt to equity ratios. Similarly, when a new corporation is envisioned, its founders will prepare pro forma financial statements for the information of prospective investors. Pro forma figures should be clearly labeled as such and the reason for any deviation from reported past figures clearly explained.

Also, banks will request pro forma statements in lieu of tax returns for a start up business in order to verify cash flow before issuing a loan or line of credit.

7.1.2 Invoices

In trade transactions, a pro forma invoice is a document that states a commitment from the seller to sell goods to the buyer at specified prices and terms. It is used to declare the value of the trade. It is not a true invoice, because it is not used to record accounts receivable for the seller and accounts payable for the buyer. Simply, a "pro forma invoice" is a "confirmed purchase order" where buyer and supplier agree on detail and cost of the product to be shipped to the buyer. A pro forma invoice is generally raised when the seller is ready for dispatching the material but he wants to ensure that the payment is being sent before dispatch. And similarly, the customer also wants to know what all other components are there in the pro forma invoice to avoid disagreements later.

A sales quote is prepared in the form of a pro forma invoice which is different from a commercial invoice. It is used to create a sale and is sent in advance of the commercial invoice. The content of a pro forma invoice is almost identical to a commercial invoice and is usually considered a binding agreement although the price may change in advance of the final sale.

A pro forma invoice can also be used for shipments containing items that are not being bought or sold, such as gifts, samples and personal belongings, whereas a commercial invoice is used when the commodities shipped are being bought or sold. However, it is best to use a Customs Invoice or Declaration as Border officials require Values for the export declaration. A Customs Invoice or declaration is commonly used in New Zealand for air parcel post shipments.

7.1.3 International trade

A pro forma invoice is much the same as a commercial invoice which, when used in international trade, represents the details of an international sale to customs authorities. A pro forma invoice is presented in the place of a commercial invoice when there is no sale between the sender and the importer (for example, in the case of an RMA for replacement goods), or if the terms of the sale between the seller and the buyer are such that a commercial invoice is not yet available at the time of the international shipment. A pro forma invoice is required to state the same facts that the commercial invoice would and the content is prescribed by the governments who are a party to the transaction.

In some countries, customs may accept a pro forma invoice (generated by the importer and not the exporter) if the required commercial invoice is not available at the time when filing entry documents at the port of entry to get goods released from customs. The U.S. Customs and Border Protection, for example, uses pro forma invoices to assess duty and examine goods, but the importer on record is required to post a bond and produce a commercial invoice within 120 days from the date of entry. If the required commercial invoice is needed for statistical purposes, the importer has to produce the commercial invoice within 50 days from the date Customs releases the goods to the importer.

7.2 Law

In law, pro forma court rulings are intended merely to facilitate the legal process (to move matters along).

Pro forma audiences are used to obey a formal demand. For example, one pro forma audience may be heard for a judge to order the production of a certain proof or to schedule another date.

7.3 Engineering

In engineering, pro forma drawings are used to facilitate the drawing release of imaginary pieces.

7.4 Government

7.4.1 Commonwealth system

In certain Commonwealth nations with a Westminster system, such as the United Kingdom, Canada, and Australia, pro forma bills are introduced immediately before consideration of the Speech from the Throne. Pro forma bills are incomplete pieces of legislation and undergo only the first reading stage. They symbolize the authority of the parliament to discuss matters other than those specified by the head of state, for which ostensibly parliament was summoned. After first reading, the bill is never considered further. The pro forma bill was first introduced in the House of Commons of England in 1558.

In the Parliament of the United Kingdom, the equivalents are the Outlawries Bill in the House of Commons and the Select Vestries Bill in the House of Lords. In the Parliament of Canada, such bills are titled Bill C-1, An Act respecting the Administration of Oaths of Office, and Bill S-1, An Act relating to Railways in the Canadian House of Commons and Canadian Senate, respectively. In the Parliament of Australia and the parliaments of the Australian states and territories, the pro forma bills consist only of a short title, and do not proceed beyond the first reading stage.

7.4.2 United States

In the Federal government of the United States, either house of the Congress (the House of Representatives or the Senate) can hold a pro forma session at which no formal business is expected to be conducted. This is usually to fulfill the obligation under the Constitution "that neither chamber can adjourn for more than three days without the consent of the other." Pro forma sessions can also be used to prevent the President pocket-vetoing bills, or calling the Congress into special session. They have also been used to prevent President Obama from making recess appointments. In 2012 President Barack Obama made four appointments during a pro forma session, calling the practice of blocking recess appointments into question. However, on June 26, 2014 the Supreme Court of the United States determined that President Barack Obama had improperly used his presidential power to make these appointments stating that while the Senate was in recess punctuated by pro forma sessions the period of time between the sessions was not long enough to invoke such power.

Similar practices exist in the state legislatures, and for similar reasons; for example, in Minnesota, legislative bodies have the same every-three-days meeting requirement that Congress has. Pro forma sessions are held to meet this requirement.

7.5 Sales (accounting)

Net sales are operating revenues earned by a company for selling its products or rendering its services. Also referred to as revenue, they are reported directly on the income statement as Sales or Net sales.

In financial ratios that use income statement sales values, "sales" refers to net sales, not gross sales. Sales are the unique transactions that occur in professional selling or during marketing initiatives.

Revenue is earned when goods are delivered or services are rendered. The term sales in a marketing, advertising or a general business context often refers to a contract in which a buyer has agreed to purchase some products at a set time in the future. From an accounting standpoint, sales do not occur until the product is delivered. "Outstanding orders" refers to sales orders that have not been filled.

A sale is a transfer of property for money or credit. In double-entry bookkeeping, a sale of merchandise is recorded in the general journal as a debit to cash or accounts receivable and a credit to the sales account. The amount recorded is the actual monetary value of the transaction, not the list price of the merchandise. A discount from list price might be noted if it applies to the sale.

Fees for services are recorded separately from sales of merchandise, but the bookkeeping transactions for recording "sales" of services are similar to those for recording sales of tangible goods.

7.5.1 Gross sales and net sales

{Net\ Sales}= {Gross\ Sales} - {(Customer\ Discounts,\ Returns,\ Allowances)}

Gross sales are the sum of all sales during a time period. Net sales are gross sales minus sales returns, sales allowances, and sales discounts. Gross sales do not normally appear on an income statement. The sales figures reported on an income statement are net sales.

-Sales returns are refunds to customers for returned merchandise / credit notes

-Debit notes

-Sales journal entries non-current, current batch processed transactions predictive analytics in strategic management/administration/governance research metaframeworks

-Sales allowances are reductions in sales price for merchandise with minor defects, the allowance agreed upon after the customer has purchased the merchandise (see also credit note)

-Sales discounts allowed are reduced payments from the customer based on invoice payment terms such as 2/10, n/30 (2% discount if paid within 10 days, net invoice total due in 30 days)

-Interest received for amounts in arrears

-inc/exc amounts capital goods&services, non-capital goods&services input valued added tax, with cost of non-capital goods sold

-Input vat - output vat

-Sales of portfolio items and capital gains taxes

-Sales Returns and Allowances and Sales Discounts are contra-revenue accounts.

-In a survey of nearly 200 senior marketing managers, 70 percent responded that they found the "sales total" metric very useful.