



Hands on Business Planning

Session 6

Financials

The Business Plan..

<p>(1) Executive Summary</p> <ul style="list-style-type: none"> • Compelling • Clear • Concise • Last Section Completed • Limit To One Page 	<p>(2) Description of Company</p> <ul style="list-style-type: none"> • Name • Mission Statement • Vision • Intentions 	<p>(3) Description of Product or Service</p> <ul style="list-style-type: none"> • Describe In Detail • Unique Attributes • Rules and Regulations 	<p>(4) Your Market</p> <ul style="list-style-type: none"> • Industry • Customer Base • Competition • Price • Distribution
<p>(5) Marketing Plan</p> <ul style="list-style-type: none"> • SWOT Analysis • Product Positioning • Forecasts • Marketing Budget 	<p>(6) Operations Plan</p> <ul style="list-style-type: none"> • Business Location • Type of Facility / Equipment • Type and Qty of Staff • Inventory 	<p>(7) Management Team</p> <ul style="list-style-type: none"> • Who • Qualifications & Experience • Roles & Responsibilities 	<p>(8) Financials</p> <ul style="list-style-type: none"> • Income Statement • Cash-Flow Projections • Balance Sheet

Questions...

<p>Can you have a business plan without the Financial Section? <i>A business plan without financials is better than no business plan at all. However, it will be considered incomplete by lenders and investors, while preventing you from knowing how the business is performing.</i></p>	<p>Which is most important? The Income Statement, Cash Flow Statement or Balance Sheet? <i>It depends upon the situation, but typically all three are of equal importance, similar to each leg on the three legged stool.</i></p>	<p>If you don't need access to debt or equity capital, is the Financial Section necessary? <i>Without a financial section, you won't ever truly know that access to capital is not needed. Unless you have an endless supply of money with zero accountability.</i></p>
<p>How accurate does the Financial Section need to be? <i>As accurate as possible in order to have the strong handle on the business, affording the best decisions possible. Fixed costs should be 100% accurate while variable costs should be as close to 100% accurate as possible and updated regularly.</i></p>	<p>In a given month, if I show a negative cash flow, should I close the business? <i>Not at all. It might be due to seasonality, or a large one-time expense. However you should be able to quickly determine the circumstance for the negative number and be able to balance it out over time with positive cash flow.</i></p>	<p>If revenue continues to increase, what else should be increasing? <i>Typically the cost of doing business shall also increase. Everything from sales commissions, to shipping, materials, labor, etc. The key is maximizing efficiencies to maintain and/or increase margin between revenue and costs of doing business.</i></p>

What is the Financial Section?

- Section of the business plan that determines whether or not your business is not only viable, but able to attract enough capital to be successful:
 1. *Adopted format for lenders and investors*
 2. *In-house roadmap to assist with managing the business and decision making*
- Sections of the Financial Plan

**INCOME
STATEMENT**

CASH FLOW

**BALANCE
SHEET**

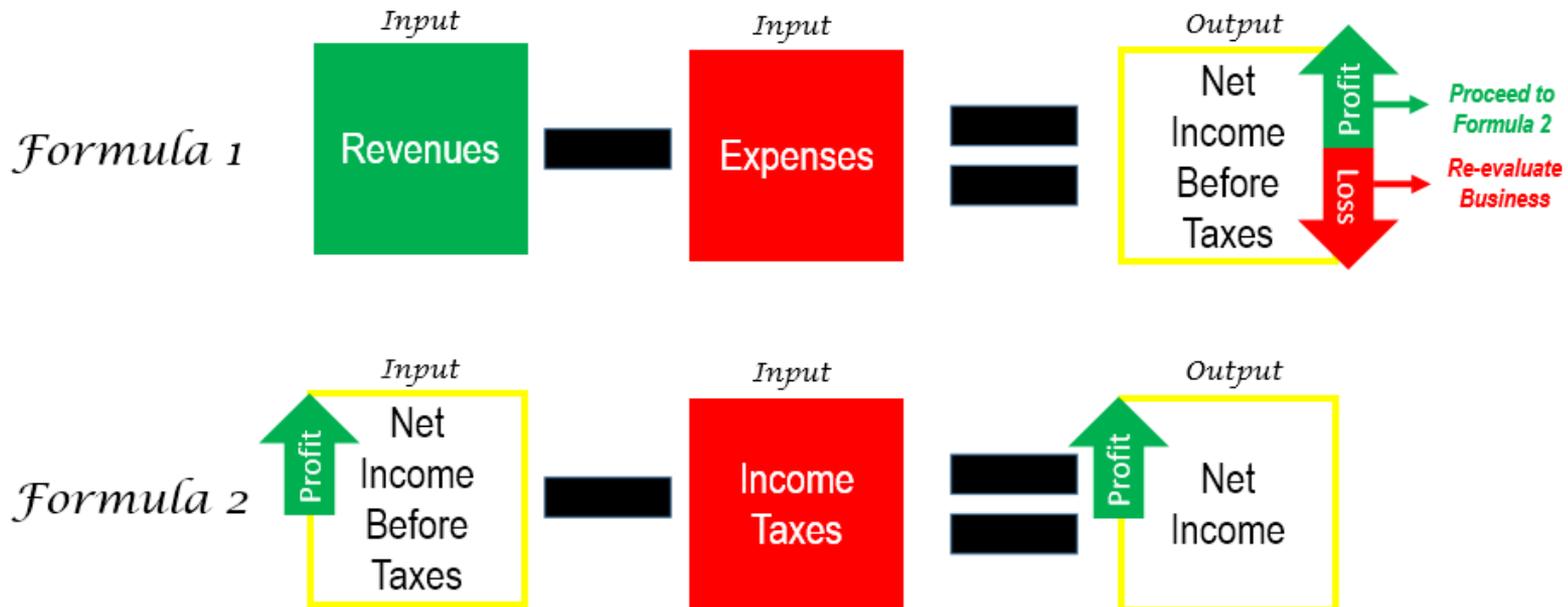
**INCOME
STATEMENT**

CASH FLOW

BALANCE
SHEET

Income Statement

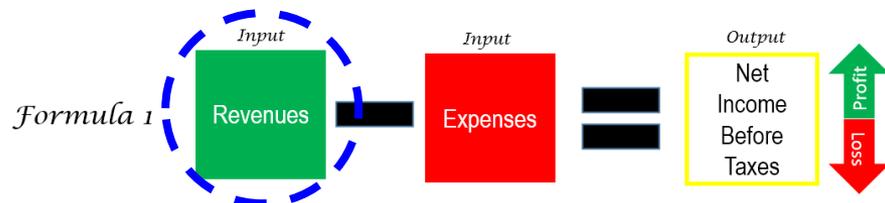
- Also known as a Profit and Loss (P&L) Statement
- A snapshot of your business that shows whether or not your business is profitable at a point in time
 - Details your revenues, expenses, and profit for a particular period
 - Should be measured monthly for first year of a new business, then quarterly onward
- Determines two figures: Net Income Before Taxes & Net Income



Income Statement

Revenues

- This figure is the amount of money a business brought in during a time period.
- Revenue is not profit.
- Growth in sales or revenue should not be a goal by itself.



YOUR COMPANY NAME
Income Statement for the 1st quarter of (year)

	Jan	Feb	Mar	Total
REVENUE				
Services				
Service 1				
Service 2				
Service 3				
Service 4				
Total Services				
Miscellaneous				
Bank Interest				
Total Miscellaneous				
TOTAL REVENUE				

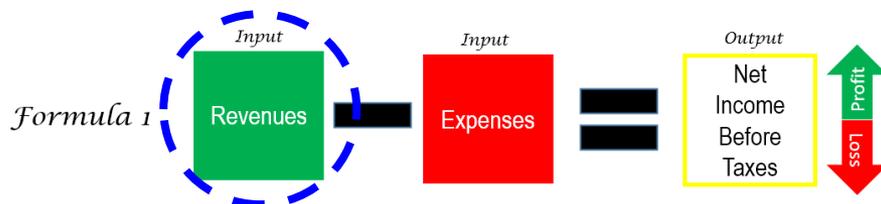
Income Statement

Cost of Goods Sold

- Still part of the Revenue portion of the Income Statement
- Appears when you have product costs
- Sales minus Cost of Goods Sold (COGS) is Gross Profit
- Gross Profit is similar to Total Revenue (previous page)

Company Name
Income Statement for the 1st quarter of (year)

	Jan	Feb	Mar	Total
REVENUE				
Sales	\$3000	\$4,100	\$4,300	\$11,400
Cost of Goods Sold				
<u>Opening Inventory</u>	\$1000	\$1500	\$1500	\$4000
Purchases	\$1000	\$1200	\$1200	\$3400
Freight	\$200	\$300	\$350	\$850
Minus Closing Inventory	-\$1200	-\$1000	-\$900	-\$3100
Total Cost of Goods Sold	\$1000	\$2000	\$2150	\$5150
Gross Profit	\$2000	\$2100	\$2150	\$6250



Income Statement

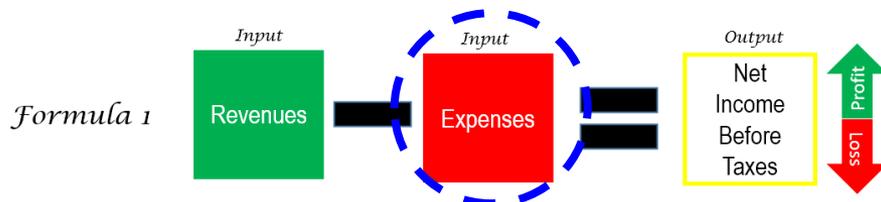
Expenses – Direct Costs

- Direct costs are expenses that a company can easily connect to a specific "cost object," which may be a product, department or project.
- This includes items such as software, equipment and raw materials. It can also include labor, assuming the labor is specific to the product, department or project.

YOUR COMPANY NAME

Income Statement for the 1st quarter of (year)

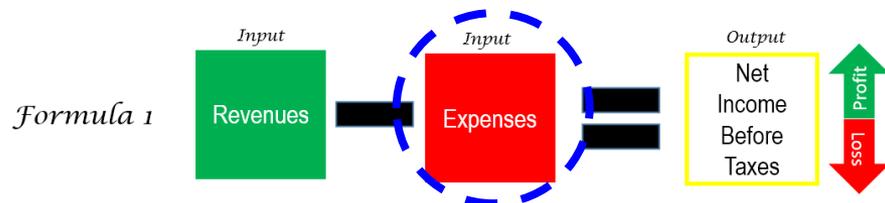
	Jan	Feb	Mar	Total
EXPENSES				
Direct Costs				
Materials				
Equipment Rentals				
Salary (Owner)				
Wages				
Pension Expense				
Workmen's Compensation Expense				
Total Direct Costs				



Income Statement

Expenses – General & Administrative

- Pertains to operation expenses including rent, utilities, insurance and managerial salaries.
- Even in the absence of any sales, general and administrative expenses occur.
- Many general and administrative expenses are fixed dollar amounts.



YOUR COMPANY NAME
Income Statement for the 1st quarter of (year)

	Jan	Feb	Mar	Total
EXPENSES				
General and Administration (G&A)				
Accounting and Legal Fees				
Advertising and Promotion				
Bad Debts				
Bank Charges				
Depreciation and Amortization				
Insurance				
Interest				
Office Rent				
Telephone				
Utilities				
Credit Card Commissions				
Credit Card Charges				
Total G&A				
TOTAL EXPENSES				

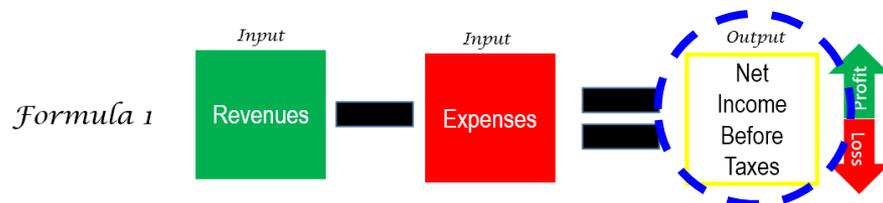
Income Statement

Net Income Before Taxes

- Pre-tax amount when your revenues exceed your expenses.
- If expenses exceed revenues, you will want to make adjustments or reconsider the business altogether.

YOUR COMPANY NAME
Income Statement for the 1st quarter of (year)

	Jan	Feb	Mar	Total
TOTAL REVENUE				
TOTAL EXPENSES				
NET INCOME BEFORE INCOME TAXES				



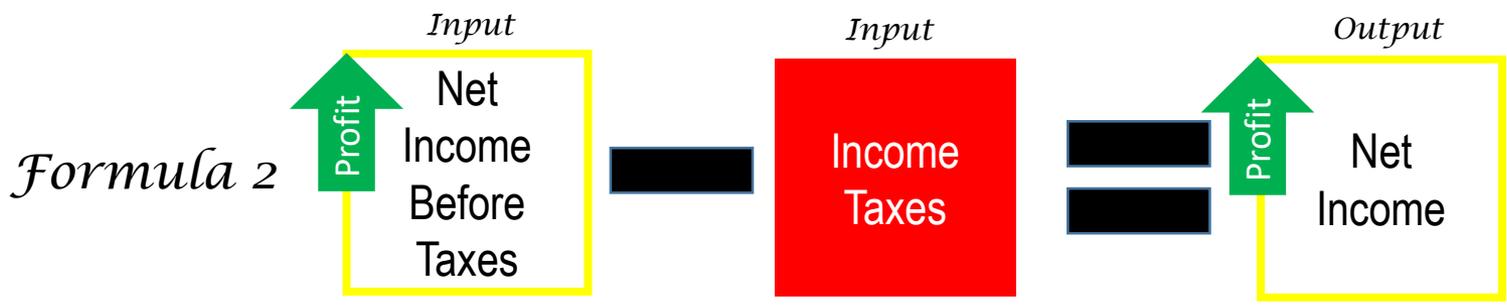
Income Statement

Net Income

- A company's total earnings (or profit); calculated by taking revenues and subtracting the costs of doing business such as depreciation, interest, taxes and other expenses.

YOUR COMPANY NAME
Income Statement for the 1st quarter of (year)

	Jan	Feb	Mar	Total
NET INCOME BEFORE INCOME TAXES				
INCOME TAXES				
NET INCOME				



Income Statement

Example

TRY OUR BIKES	
Income Statement	
For the Period Ending August 31, 200X	
REVENUE:	
Bicycle rental revenue	\$20,000
Safety equipment rental revenue	\$ 5,000
TOTAL REVENUE	\$25,000
OPERATING EXPENSES:	
Marketing (selling) Expenses:	
Newspaper Advertising Expense	\$ 3,500
Brochures & Pamphlets Expense	\$ 500
Total Marketing Expenses	\$ 4,000
Administrative Expenses:	
Rent Expense	\$ 8,250
Telephone & Utilities Expense	\$ 1,300
Office supplies Expense	\$ 1,000
Interest Expense	\$ 300
Company Registration	\$ 150
Total Administrative Expenses	\$11,000
TOTAL OPERATING EXPENSES	\$15,000
Earnings Before Taxes or <u>Operating Income</u>	\$10,000
Less: Income Taxes (30% rate)	\$(3,000)
NET INCOME	\$ 7,000

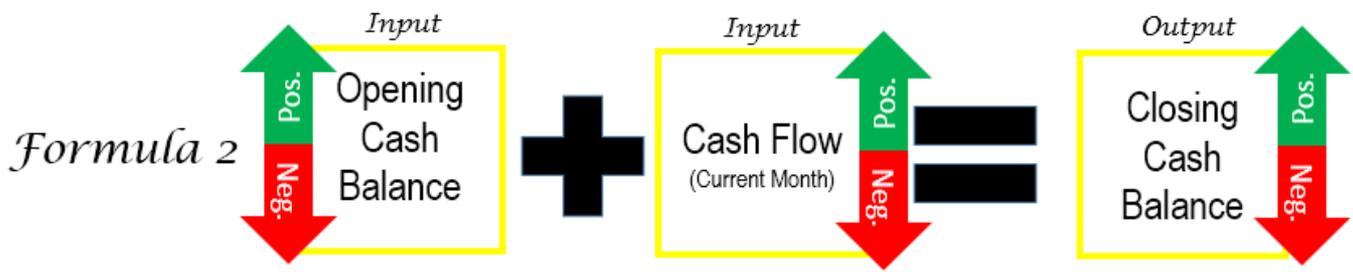
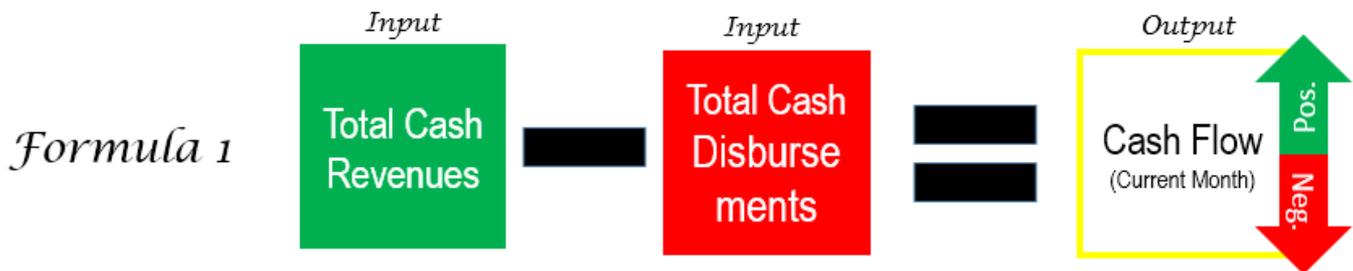
INCOME
STATEMENT

CASH FLOW

BALANCE
SHEET

Cash Flow

- **Two types: Cash Flow Statement & Cash Flow Projection**
 - *Cash flow statement shows how cash has flown (past tense) in and out of the business*
 - *Cash flow projection shows how cash is anticipated to flow (new business)*
- **Determines two figures: #1 Cash Flow & #2 Closing Cash Balance**



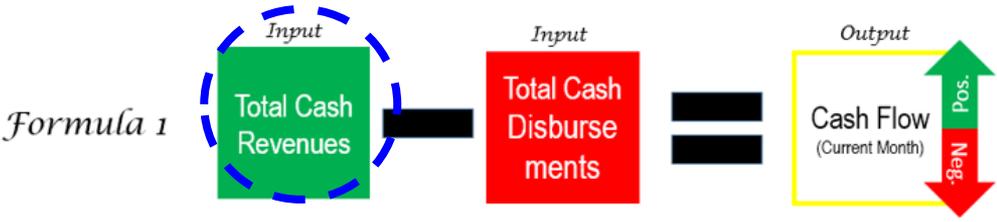
Cash Flow

Cash Revenues

- Also known as in-flows, the total amount of cash a business receives from customers as payment for its products or services.
- When a supermarket customer spends \$50 on groceries, this counts as the supermarket's cash revenue.
- When an Internet customer purchases a service for \$20 from an service provider, this is cash revenue.

YOUR COMPANY NAME
CASH FLOW PROJECTIONS

	Jan	Feb	Mar	Apr	May	Jun
CASH REVENUE						
Revenue from Product Sales						
Revenue from Service Sales						
TOTAL CASH REVENUES						



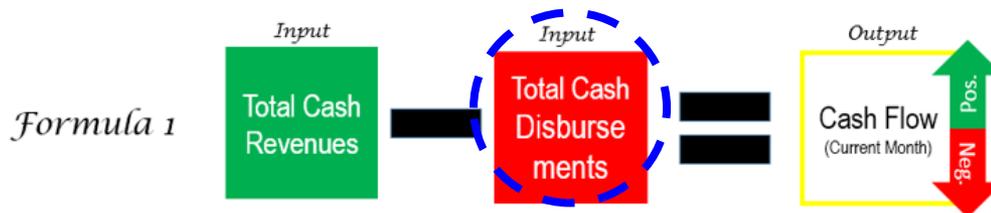
Cash Flow

Cash Disbursements

- Also known as out-flows, the cash expenditures you actually expect to pay that month for each month.
- Also called cash payments. In accounting, payments made by a company during a specified period, such as quarter or year.
- Includes payments made by cash, but also by cash equivalents like checks or electronic fund transfers.

YOUR COMPANY NAME
CASH FLOW PROJECTIONS

	Jan	Feb	Mar	Apr	May	Jun
CASH DISBURSEMENTS						
Cash Payments to Trade Suppliers						
Management Draws						
Salaries and Wages						
Promotion Expense Paid						
Professional Fees Paid						
Rent/Mortgage Payments						
Insurance Paid						
Telecommunications Payment						
Utilities Payments						
TOTAL CASH DISBURSEMENTS						



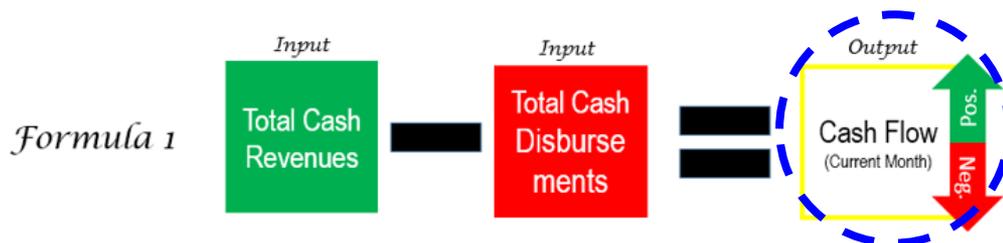
Cash Flow

Opening Cash Balance & Closing Cash Balance

YOUR COMPANY NAME
CASH FLOW PROJECTIONS

	Jan	Feb	Mar	Apr	May	Jun
CASH FLOW						
OPENING CASH BALANCE						
CLOSING CASH BALANCE						

- The opening balance is the amount of funds in a company's account at the beginning of a new financial period.
 - It is the first entry in the account, either when a company is first starting up its accounts or after a year-end.
- A closing balance is the amount remaining in an account, positive or negative, at the end of an accounting period or year end.

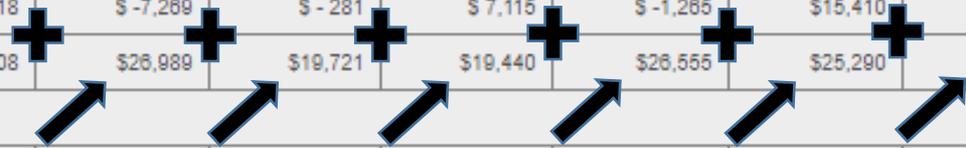


Cash Flow

Example

J&B INCORPORATED
CASH FLOW STATEMENT
MAY 1, 200W to NOVEMBER 30, 200W

ASSUMPTIONS:	<u>MAY</u>	<u>JUNE</u>	<u>JULY</u>	<u>AUG.</u>	<u>SEPT.</u>	<u>OCT.</u>	<u>NOV.</u>
NET CASH INFLOWS	\$53,363	\$46,693	\$46,693	\$53,363	\$53,363	\$66,704	\$60,033
TOTAL CASH OUTFLOWS	\$83,981	\$53,961	\$46,973	\$46,247	\$54,628	\$51,294	\$72,231
Net Cash Flow (Deficiency)	\$-30,618	\$ -7,269	\$ -281	\$ 7,115	\$ -1,265	\$15,410	\$-12,198
Plus: Beginning Cash Balance (note 21)	\$57,608	\$26,989	\$19,721	\$19,440	\$26,555	\$25,290	\$40,700
ENDING CASH BALANCE	\$26,989	\$19,721	\$19,440	\$26,555	\$25,290	\$40,700	\$28,502



Cash Flow

Detailed Example

J&B INCORPORATED CASH FLOW STATEMENT MAY 1, 200W to NOVEMBER 30, 200W							
ASSUMPTIONS:	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.
CASH INFLOWS:							
Cash From Product Sales (100%)	\$17,472	\$17,472	\$46,592	\$46,592	\$52,416	\$52,416	\$58,240
Less: Bad Debt (1%) (note 12)	\$ 175	\$ 175	\$ 466	\$ 466	\$ 524	\$ 524	\$ 582
NET CASH INFLOWS	\$17,297	\$17,297	\$46,126	\$46,126	\$51,892	\$51,892	\$57,658
CASH OUTFLOWS:							
Purchase of Diskettes (note 27 a)	\$8,670	\$ 0	\$ 0	\$ 8,670	\$ 0	\$ 8,670	\$ 0
Purchase of CD (note 27 b)	\$2,500	\$ 0	\$ 0	\$ 0	\$ 2,500	\$ 0	\$ 0
Credit Card Charges (note 27 c)	\$ 877	\$ 877	\$ 2,339	\$ 2,339	\$ 2,632	\$ 2,632	\$ 2,924
Packaging Charges (note 27 d)	\$ 130	\$ 130	\$ 347	\$ 347	\$ 391	\$ 391	\$ 434
Actual Shipping Charges (note 27 e)	\$ 636	\$ 636	\$ 1,696	\$ 1,696	\$ 1,908	\$ 1,908	\$ 2,120
Toll Free Charges (note 27 f)	\$ 0	\$ 471	\$ 471	\$ 1,255	\$ 1,255	\$ 1,412	\$ 1,412
Commission on Sales (note 27 g)	\$ 0	\$ 236	\$ 236	\$ 631	\$ 631	\$ 709	\$ 709
Product Miscellaneous (note 27 h)	\$ 118	\$ 118	\$ 315	\$ 315	\$ 355	\$ 355	\$ 394
Advertising (note 3)	\$5,000	\$5,000	\$12,000	\$12,000	\$12,000	\$12,000	\$12,000
Wages & Employee Benefits (note 4)	\$6,217	\$6,900	\$10,464	\$10,857	\$10,857	\$10,857	\$10,857
Research & Development (note 19)	\$7,630	\$8,240	\$ 8,240	\$ 8,240	\$ 8,240	\$ 8,240	\$ 8,240
Casual Labor (note 5)	\$ 0	\$ 0	\$ 0	\$ 800	\$ 0	\$ 0	\$ 0
Office Supplies (note 6)	\$ 0	\$ 500	\$ 0	\$ 0	\$ 500	\$ 0	\$ 0
Rent (note 7)	\$1,000	\$1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Telephone/Fax (note 8)	\$ 0	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Professional Services (note 9)	\$ 0	\$2,250	\$ 2,250	\$ 250	\$ 250	\$ 250	\$ 250
Business Insurance (note 10)	\$1,500	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Toll-free Charges above Variable (note 11)	\$ 0	\$ 471	\$ 471	\$ 1,255	\$ 1,255	\$ 1,412	\$ 1,412
Miscellaneous Charges (note 15)	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
Office Furniture (note 17)	\$1,618	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Office Equipment (note 16)	\$4,966	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Payment on Operating Loan (note 13)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Interest on Loan (note 13)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Internet Storage & Accounts (note 14)	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Dividends Paid (note 28)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$20,000
TOTAL CASH OUTFLOWS	\$41,213	\$27,480	\$40,480	\$50,305	\$44,422	\$50,485	\$62,402
Net Cash Flow (Deficiency)	\$-23,915	\$-10,183	\$5,646	\$-4,179	\$7,470	\$1,407	\$-4,744
Beginning Cash Balance (note 21)	\$63,314	\$39,398	\$29,216	\$34,862	\$30,683	\$38,153	\$39,560
ENDING CASH BALANCE	\$39,398	\$29,216	\$34,862	\$30,683	\$38,153	\$39,560	\$34,816

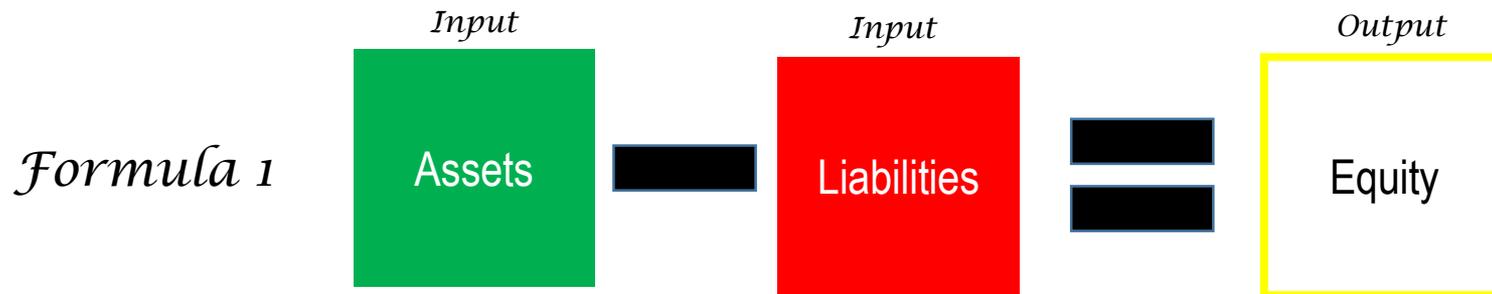
INCOME
STATEMENT

CASH FLOW

**BALANCE
SHEET**

Balance Sheet

- A statement of the financial position of the business which states the assets, liabilities, and owners' equity at a particular point in time
- There are three balance sheet segments give investors an idea as to what the company owns and owes OR 'net worth'

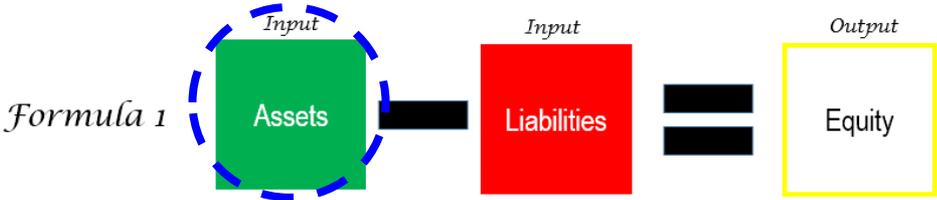


Balance Sheet

Assets

- Property owned by a person or business.
- Current Assets
 - Items that are currently cash or expected to be turned into cash within one year are known as current assets. This includes: cash, inventory and accounts receivable.
- Fixed Assets
 - Items acquired to carry on the business of a company with a life exceeding one year. These include: land, buildings, vehicles, tools, machinery, computer hardware, mobile phones, etc.
 - Can be sold to generate cash, used as collateral for business loans.

ASSETS	\$
Current Assets	
Cash in Bank	
Petty Cash	
Net Cash	
Inventory	
Accounts Receivable	
Prepaid Insurance	
Total Current Assets	
Fixed Assets:	
Land	
Buildings	
Less Depreciation	
Net Land & Buildings	
Equipment	
Less Depreciation	
Net Equipment	
TOTAL ASSETS	

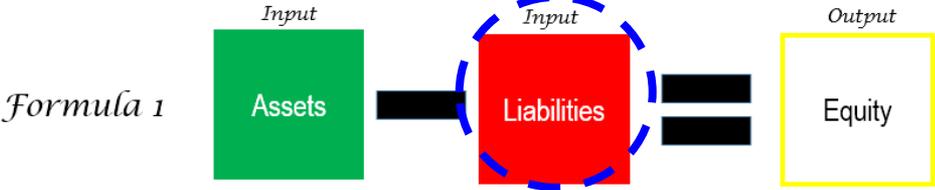


Balance Sheet

Liabilities

- Liabilities are the money that a company owes to outside parties.
- Current Liabilities
 - Current liabilities are those that are due within one year and are listed in order of their due date. This includes: payment of debt and interest, rent, taxes, utilities, wages, etc.
- Long Term Liabilities
 - Long-term liabilities are due at any point after one year. These include: long term debt and interest, deferred taxes.

LIABILITIES	\$
Current Liabilities	
Accounts Payable	
Vacation Payable	
Income Tax Payable	
Customs Fees	
Pension Payable	
Union Dues Payable	
Medical Payable	
Workers Compensation Payable	
State/Provincial Tax Payable	
Total Current Liabilities	
Long-Term Liabilities	
Long-Term Loans	
Mortgage	
Total Long-Term Liabilities	
TOTAL LIABILITIES	

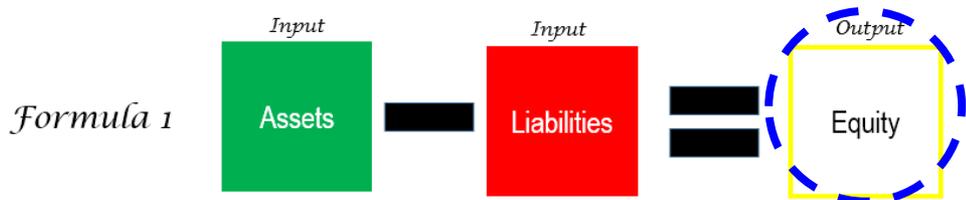


Balance Sheet

Equity

- Also known as the book value of a company.
- Owner's Equity
 - Is the term used when the company is a 'Sole Proprietorship' or 'Limited Liability Company (LLC)'
 - Owners draws are direct reductions of the owners equity
 - Retained earnings are reinvested in the business
- Stockholder's Equity
 - Is the term used when the company is a corporation. Examples include: common stock, preferred stock, retained earnings, etc.

EQUITY	
EARNINGS	
Owner's Equity - Capital	
Owner - Draws	
Retained Earnings	
Current Earnings	
TOTAL EQUITY	



Balance Sheet

Example

My Art Business (A Sole Proprietorship)

Balance Sheet

As of December 31, 2009

Assets

Cash	\$15,000
Cash Equivalents (Google Stock)	\$3,000
Accounts Receivable	\$18,000
Inventory	\$24,000
Prepaid Expenses	<u>\$24,000</u>
Total Current Assets	\$84,000

Buildings	\$150,000
Equipment	\$15,000
Furniture	\$5,000
Vehicles	\$12,000
Buildings Improvements	<u>\$6,000</u>
Total Non-Current Assets	\$188,000

Total Assets **\$272,000**

Liabilities

Accounts Payable	\$6,000
Current Portion Loans Payable - Building	\$10,000
Current Portion Leases Payable - Equipment	\$2,000
Income Taxes Payable	\$4,000
Customer Deposits	<u>\$6,000</u>
Total Current Liabilities	\$28,000

Loans Payable - Building	\$75,000
Leases Payable - Equipment	<u>\$4,000</u>
Total Non-Current Liabilities	\$79,000

Total Liabilities **\$107,000**

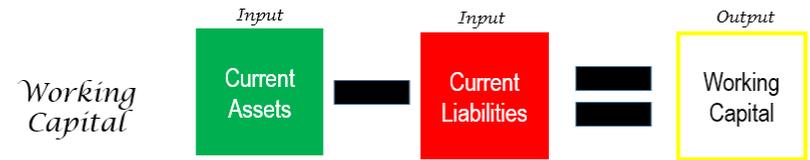
Equity

Capital Contributed	\$40,000
Retained Earnings	<u>\$125,000</u>
Total Owners Equity	\$165,000

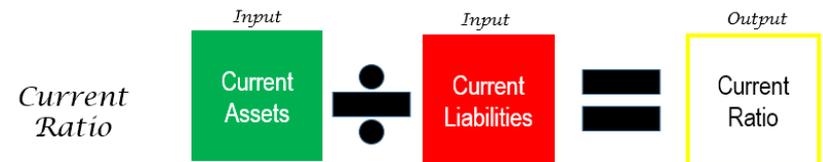
Balance Sheet

Common Financial Outputs

- Working Capital
 - The capital of a business that is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities
 - A gauge of a company's liquidity, efficiency and overall health



- Current Ratio
 - Used to give an idea of a company's ability to pay back its liabilities (debt and accounts payable) with its assets (cash, inventory, accounts receivable).
 - Most lenders like to see a 2:1 ratio



Questions

<p>Can you have a business plan without the Financial Section?</p>	<p>Which is most important? The Income Statement, Cash Flow Statement or Balance Sheet?</p>	<p>If you don't need access to debt or equity capital, is the Financial Section necessary?</p>
<p>How accurate does the Financial Section need to be?</p>	<p>In a given month, if I show a negative cash flow, should I close the business?</p>	<p>If revenue continues to increase, what else should be increasing?</p>