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CHAPTER 16

The Financials

Numbers are merely the reflection of decisions you make.

How to Painlessly Deal with Numbers and Financial Forms

People in business usually fall into one of two categories: those who are fascinated with numbers, or those who are frightened by them. If you're in the first category, you are probably delighted to finally reach this section. You may have even skipped previous sections to do this one. If you are one of those in the second category, however, you're probably intimidated by the very prospect of having to fill in the forms encountered in this chapter.

"A lot of entrepreneurs don't pay attention to the financial side of the house, and that's where we see a lot of them fail. They relegate finance and accounting to the back seat."

Damon Doe
Managing Partner,
Montage Capital

Numbers Represent Your Decisions

Take heart: Numbers are neither magical, mysterious, nor menacing. They merely reflect other decisions you have made previously in your business planning. If you decided to advertise each week in your local newspaper, there's a number attached to that decision. If you projected sales at a certain level, there's a number attached to that decision as well.

Every business decision leads to a number, and, taken together, these numbers form the basis of your financial forms. But numbers themselves are not decisions. You cannot pull a number out of thin air because the financial forms you are completing call for a specific figure on a specific line. Rather, your numbers should always be the result of careful planning.

Getting Control of Your Finances

Even if you are not responsible for preparing ongoing financial reports, you should have a working understanding of financial statements so that you can better control your company.

Financial statements provide you with the information you need to make decisions. Many managers mistakenly believe that they are in charge of the big picture, while bookkeepers and bean counters get caught up with mere details. Numbers are not just details: They are the vital signs of any business; you must understand your company's numbers to realistically assess the condition of your business.

Read Your Financial Statements

Get in the habit of reading your financial statements at least monthly, and make sure you understand what you read. Track items such as sales receipts on a daily or weekly basis. Don't wait for reports to come back from the accountants before knowing your cash position. You will find you have more confidence in your decisions if you comprehend the financial implications of each of your choices.

"I had the chance to fund Google when it was just a four-to-five-person shop, and I passed. It seems pretty stupid in hindsight, but when it comes to something like that, you are making a bet, and it just happened that Google caught fire. It's really hard to predict things like that."

Damon Doe
Managing partner,
Montage Capital

Try to view your financial statements in a relatively dispassionate manner. It is difficult, especially when you own your business, to keep emotions from clouding your ability to properly examine your financial reports. If you know it has been a bad month, you may be tempted just to ignore that month's cash-flow or income statements. Don't.

Set Policies and Stick with Them

Set financial policies in place and stick with them, in good times and bad. Many businesses, even big companies, get in trouble through inadequate billing and collection procedures. Stay on top of your finances.

If you are establishing accounts for the first time, get professional assistance from an accountant or bookkeeper. A professional can set up your initial books, assist you in understanding financial terms, and give you valuable advice on billing, payment, and payroll procedures.

Cash-Basis Accounting

One aspect of your business an accountant will help you decide is whether to set up your books on an accrual basis or a cash basis. Most smaller businesses are generally advised to conduct business on a cash basis, meaning that income and expenses are entered in the books at the time money actually changes hands.

Thus, if you receive a $5,000 order in January, but you don't receive payment until March, the $5,000 credit appears as income only on your March statements. This gives a truer picture of a company's ability to meet its financial obligations than does accrual accounting.

Accrual-Basis Accounting

With accrual-basis accounting, income and expenses are counted at the time they are originally transacted; thus, the $5,000 order would show as income in January. If payment is never made, additional accounting entries would later be made to write off the loss. Larger businesses choose this accounting form to have a better sense of overall profitability.

Globalization: Financial Considerations

Whenever you cross a country border, you cross financial borders as well. Doing business internationally, you are going to encounter a number of financially related issues that you must keep in mind and plan for. These include:

- foreign currency exchange
- currency fluctuations
- differing standard payment terms
- differing finance laws and terms
- additional taxes or tariffs
- customs charges
- banking costs and practices
- interest rates
- security of funds in financial institutions
- potential inflation
- any other international financial variables

You need to understand the financial situation of the specific countries where you'll be doing business and plan for how it differs from the financial practices of your home country. For instance, in the United States, it is typical for business-to-business customers to extend credit with "30 day net" payment terms and for consumers to frequently pay with credit cards. Those terms may be very different in the countries where you are doing business, or, in some countries, consumers may not typically use credit cards.

As much as possible, you must also plan for the various factors that can affect or disrupt your financial situation when doing business offshore. For instance, some currencies are historically very stable, while others fluctuate greatly. Some countries regularly face rampant inflation. You should also look at the practices and laws related to keeping your funds in foreign financial institutions—how safe are they, what kinds of interest rates do they pay, are the funds insured? Political unrest or climate emergencies can also affect the value and security of your funds.

All these factors should be considered when pricing your products/services internationally, establishing credit policies and charges, and determining where to keep funds and how much to keep overseas.

You'll want to confer with an accountant knowledgeable in foreign business operations to help you plan your financials if you're doing considerable business internationally. Be certain to ask about the tax ramifications, as tax issues when dealing with international operations and sales can be complicated.

Use the Globalization: Financial Considerations worksheet on the following page to think through some of the financial issues facing you when doing business internationally.

Globalization: Financial Considerations

Answer the following questions if you will be dealing with foreign currencies, conducting international operations, or selling your products or services internationally.

Have you accounted for the way exchange rates will affect your financial analysis and projections? ______________

How stable are the foreign currencies you will be dealing with? Are they historically consistently stable or do rates fluctuate greatly? Is there political or social unrest that could affect the value of the currency in the areas where you plan to operate? ______________

Are there any unique start-up costs associated with doing business in some regions? ______________

Are there unique tax or tariff considerations you should be aware of in the countries where you plan to operate? ______________

What seasonal factors will affect financial projections or cause revenue fluctuations in the regions in which you plan to operate? ______________

Will you be paying any staff in a foreign currency? If so, what are the average pay rates for the positions you plan to fill? Are there expected region-specific benefits you need to be aware of? ______________

What are the average costs of supplies, goods, or services that you may purchase locally if working internationally? Would it be more economical in some cases to purchase goods in the United States and ship them to international locations? ______________

Using the Abrams Method of Flow-Through Financials

One of the most difficult questions, especially for new businesses, is "Where do I get the figures for my financial forms?"

If you have been filling out the Flow-Through Financial worksheets throughout the previous chapters, you have already compiled many of the figures you need to complete the worksheets in this chapter. For instance, you have already computed your marketing budget in Chapter 10. Likewise, on other worksheets, you have detailed costs of salaries, equipment, and other aspects of your business.

Now just transfer the figures from each of your Flow-Through Financial worksheets (marked with the dollar-sign logo) to their appropriate line(s) on the Financials forms that follow. Refer to the chart on pages 272–273 to see on which form and line each specific figure should be placed.

Electronic Financial Worksheets

To make this process even easier, an Excel-based Financial Worksheets package is available for purchase as a supplement to this book. The worksheets are identical to the financial worksheets found in the book and embrace the Flow-Through Financials methodology used here. In addition, the electronic worksheets perform all calculations for you, generate charts, and allow you to "tweak" your numbers to obtain the most accurate financial picture. Once you are satisfied with your numbers, you can print out all the financial forms necessary to include with your business plan. Visit www.PlanningShop.com to purchase the Electronic Financial Worksheets.

> *"In financials, we look for professionalism. Use standard formats. Hire an accountant, not so much as to come up with your numbers but for your forms. We want to see a cash flow analysis as well as everything else in a standard annual report (balance sheet, income statement). You or an accountant should compare your numbers with those of existing companies. If they are very different from those of well-managed companies, they may be unrealistic."*
>
> **Eugene Kleiner**
> **Venture Capitalist**

Types of Financial Forms

For the financial portion of your business plan, the three most important forms are:

- **Income Statement.** Shows whether your company is making a profit.
- **Cash-Flow Projection.** Shows whether the company has the cash to pay its bills.
- **Balance Sheet.** Shows how much the company is worth overall.

Other forms include:

- **Sources and Use of Funds.** Shows where you will get financing for your business and how you will spend the money invested or lent. A potential investor or loan officer will want to see this.
- **Break-even Analysis.** Shows the point at which sales exceed costs and you begin to make a profit. Advisable for internal planning.
- **Start-up Costs.** For a new business shows the initial investment necessary to begin operations. A Start-Up Costs form can be found in Chapter 11, on page 202, and should be included in your completed business plan.
- **Assumption Sheet.** Shows those reading your financial statements how you determined the figures used. A good adjunct to other forms.

Abrams Method of Flow-Through Financials

All of the Flow-Through Financial Worksheets throughout this book are recognizable by the dollar-sign icon ($ ➤ $ $ ➤ $ $ $) in the top right-hand corner.

WORKSHEET	CHAPTER	TRANSFER TO	USE ON LINES
Seasonal Factors	6, page 89	Cash-Flow Projection	Sales, Collections, Cost of Goods, Operating Expenses
		Income Statement	Sales, Cost of Goods, Marketing
Financial Patterns	6, page 95	Income Statement	Sales, Returns, Cost of Goods, Commissions, Utilities, Salaries
		Cash-Flow Projection	Sales, Cost of Goods, Operating Expenses
		Break-Even Analysis	
Marketing Vehicles	10, page 154	Marketing Budget (Chapter 10, p. 154)	
		Income Statement	Marketing
		Cash-Flow Projection	Operating Expenses
Traditional Marketing Tactics	10, page 156	Marketing Budget (Chapter 10, p. 154)	
		Income Statement	Profit Margin, Marketing
		Cash-Flow Projection	Operating Expenses
Marketing Budget	10, page 172	Income Statement	Marketing, Travel/Entertainment, Professional Services
		Cash-Flow Projection	Operating Expenses
Sales Projections	10, page 174	Income Statement	Sales, Commissions
Projections	10, page 174	Cash-Flow Projection	Operating Expenses
Facilities	11, page 182	Income Statement	Rent, Utilities, Maintenance
		Cash-Flow Projection	Operating Expenses, Other Expenses
		Balance Sheet	Fixed Assets, Depreciation
Production	11, page 186	Income Statement	Cost of Goods, Salaries, Employee Benefits, Payroll Taxes
		Cash-Flow Projection	Operating Expenses
Equipment Schedule	11, page 188	Income Statement	Depreciation, Equipment Rental, Furniture and Equipment
		Cash-Flow Projection	Operating Expenses, Equip. Purchase
		Balance Sheet	Fixed Assets, Depreciation

WORKSHEET	CHAPTER	TRANSFER TO	USE ON LINES
Supply and Distribution	11, page 191	Income Statement	Cost of Goods, Commissions
		Cash-Flow Projection	Cost of Goods, Operating Expenses
Order Fulfillment	11, page 193	Income Statement	Postage and Shipping, Returns and Allowances, Salaries (Customer Service Personnel)
		Cash-Flow Projection	Operating Expenses
Research and	11, page 197	Income Statement	Allot costs to appropriate lines
Development			(e.g., salaries, equipment) or create separate R & D line
		Cash-Flow Projection	Operating Expenses
Other Operational Issues	11, page 201	Income Statement	Insurance, Professional Services, Other (for permits, licenses)
		Cash-Flow Projection	Operating Expenses
Start-Up Costs	11, page 202	Income Statement	First month's operating expenses on appropriate lines
		Cash-Flow Projection	First month's operating expenses (and months for term payments)
		Balance Sheet	Current and Fixed Assets, Current and Long-Term Liabilities (for loans secured to pay costs), or Equity
Technology Budget	12, page 212	Income Statement	Depreciation, Equipment Rental, Furniture and Equipment
		Cash-Flow Projection	Operating Expenses, Equip. Purchase
		Balance Sheet	Fixed Assets, Depreciation
Compensation & Incentives	13, page 221	Income Statement	Salaries, Employee Benefits, Payroll Taxes
		Cash-Flow Projection	Operating Expenses
Key Management Personnel to Be Added	13, page 226	Income Statement and Cash-Flow Projection	Salaries (projections for future months and years)
Staffing Budget	16, page 280	Income Statement	Salaries, Benefits, Payroll Taxes
Monthly Cash Income Projections	16, page 282	Income Statement	Gross Sales (unless your business is accrual based)

Time Frames Your Forms Should Cover

Generally, investors want to see financial projections for three to five years in the future, plus historical records of the past three to five years for currently operating businesses. If possible, find out what periods of time your lending institution or potential investor wants to see and prepare your forms accordingly. Otherwise, prepare forms to cover the time frames cited below.

- **Income Statements.** First year: monthly projections. Years two and three: quarterly projections. Years four and five: annual projections. Existing businesses: actual annual income statements for the last three years.
- **Cash Flow.** First year: monthly projections. Years two through three: quarterly projections.
- **Balance Sheet.** First year: quarterly projections. Years two through five: annual projections. Existing businesses: current balance sheet and actual balance sheets for last two years.

General Financial Terms

The terms that follow are frequently used in financial forms. If you are in business, you should have a working knowledge of these terms.

Even if you're familiar with financial statements, take a few minutes to update your understanding of these key words; and if you've never produced (or reviewed) a financial statement before, study these terms until you feel comfortable with them.

Accounts Payable. Obligations owed to others; list of outstanding bills.

Accounts Receivable. Obligations owed to your company by others; a list of outstanding invoices.

Accumulated Depreciation. The amount of depreciation a company has already taken in the form of tax deductions; such accumulated depreciation must be accounted for when selling fixed assets.

Assets. Anything the company owns having a positive monetary value.

Cash. Immediately available money in the form of currency, checks, or bank deposits.

Cost of Goods. Expenses directly associated with producing and making a specific product. Companies differ as to which expenses they attribute to cost of goods, but generally items such as source materials, direct labor, and freight are included.

Cost of Sales. Expenses directly associated with selling a product or service. This typically includes items such as sales commissions, distributor's fees, and so on, but does not generally include more indirect costs such as marketing.

Current Assets. Assets that can be converted quickly, with relative ease, to cash; these assets are designed to be turned over in the normal course of doing business, such as bank deposits, inventory, and accounts receivable.

Current Liabilities. Any bills, debts, or obligations occurring in the ongoing course of business; any debt due within the next year. Includes accounts payable, accrued payroll expenses, and loans and credit lines with less than one year's maturity date.

Debt. An ongoing obligation of the company, such as a bank loan.

Depreciation. The wear and tear on fixed assets—not a cash expenditure, but an ongoing expense of the business as equipment wears down. A tax deduction.

Equity. Ownership of a company, usually distributed by means of shares of stock. A person who owns part of a company is said to have an equity interest in the company.

Exchange rate. The price at which one currency is converted to be received in another currency. For example, if 100 US dollars are worth 120 Australian dollars, the exchange rate is 1.2, and if 100 US dollars are worth 80 Euros, the exchange rate is 0.8.

Fixed Assets (or Property, Plant, and Equipment). Assets that are the ongoing means of doing business; such assets are generally cumbersome to turn into cash; includes buildings, land, and equipment.

Fixed Costs. Ongoing expenses or overhead of a business that occur regardless of the amount of sales. These expenses usually include items such as rent, utilities, and salaries.

Gross Profit. Percentage of income your company realizes on each sale before administrative expenses.

Liabilities. Any outstanding obligation or debt of the company.

Long-Term Liabilities. Loans and other debts that come due in more than a year's time. This year's interest payments on such loans, or debt service, are included in Current Liabilities.

Net Profit. Amount of income after deducting all costs of doing business, including administrative overhead and other fixed costs.

Net Worth. Value of a company after deducting liabilities from assets.

Other or Intangible Assets. Aspects of your company that have value not easily interpreted in specific monetary terms or directly convertible to cash; assets such as a popular trademarked name and the goodwill a company has built up over time.

Profit. Amount a company earns after expenses.

Pro Forma. Financial statements based on projected future performance rather than actual historical data.

Retained Earnings. Net worth amount the company keeps internally for ongoing development of the business rather than distributing to shareholders.

Financial Symbols

The symbols below commonly appear on financial forms:

( ) Numbers appearing in parentheses are negative numbers; they represent losses.

------ Single lines represent subtotals.

=== Double lines represent totals.

000's This indicates that numbers are expressed in thousands.

Guidelines for Preparing Your Financial Forms

In preparing your financial forms, you will almost certainly have questions as to how to attribute certain expenses for your business. You might wonder whether you should ascribe sales commissions to cost of goods sold or to operating expenses. Accounting practices differ, so follow these guidelines:

When preparing your financial forms, keep these imperatives in mind:

1. **Be conservative.** Avoid the tendency to paint the rosiest picture possible; doing so reduces your credibility.
2. **Be honest.** Experienced financing sources will sense dishonest or manipulated figures; expect to be asked to justify your numbers.
3. **Don't be creative.** Use standard formats and financial terms; otherwise you look inexperienced to financing sources.
4. **Get your accountant's advice.**
5. **Follow the practices used in your industry.**
6. **Choose the appropriate accounting method.**
7. **Be consistent.** Make a decision and stick with it for all your accounts, otherwise you can't compare one year's figures to another.

Staffing Budget

In many companies, the costs associated with employees are often the largest expenses of the business. In any company, labor costs are a critical issue. When planning a business, it's easy to underestimate or overlook labor costs.

Number and Timing

You must first figure out how many employees you will need and exactly when you will need them. It is easy to underestimate this number, anticipating that you will only hire outstanding employees, all of whom will work to maximum capacity. But remember, employees will probably not work as hard or as long as you do, so don't plan your expenses based solely on your own level of productivity.

Some industries, such as those in the service sector, are particularly labor intensive. And in a small business, customers often expect very high levels of personal service, which can mean higher staffing levels. Even if yours is a sole proprietorship, you may occasionally need to hire some assistance, and you should plan accordingly.

If yours is a new business, you may want to talk with entrepreneurs in existing businesses about the level and timing of their personnel to help you devise your own projections. If you are changing the direction of an existing business, how will your new needs affect your staffing levels and deployment? Will current employees be able to be trained for new tasks, or will new staff need to be hired?

Not all employees will be hired at once, and not all employees will be permanent. The staffing budget allows you to change the number of workers in each category depending on the actual month(s) they work. You may have seasonal work that requires additional staff for some portions of the year. Timing your hiring can be very important in making certain you are adequately prepared for your workloads. Most people, even those who have been in business for a long time, underestimate the time it will take to hire and train new staff. Allow yourself realistic lead-time for staff recruitment, and don't forget to account for the costs of any temporary help you may need until permanent staff is in place.

Also, it's almost inevitable that you will at some point hire people who do not perform well. There will be costs associated with dismissing employees. These costs may include temporary help to fill their slots while you seek replacement and any severance pay that is required by their contract.

Benefits and Taxes

One of the first things you will need to do is to figure out the benefits that you will need and want to attract and retain qualified staff. These benefits may include health, life, dental, or disability insurance; pension benefits; and paid vacation.

Some employee costs are required by law. Check with your state's department of labor to find out about mandatory benefits, such as workers' compensation. There will also be payroll taxes, which can add a substantial amount to your total employee costs. You may want to talk with an accountant or lawyer to learn what costs to anticipate with regard to benefits and taxes.

The Staffing Budget worksheet on page 280 will help you plot out all the labor costs associated with your business. The worksheet is presented in a monthly format to allow you to reflect the changes in your staffing depending on when you hire new employees, add new divisions, or use seasonal or variable labor.

The information in the Staffing Budget transfers to the Salary/Wages, Employee Benefits and Payroll Taxes lines on your Income Statement, pages 284–285. The supplemental Electronic Worksheets package available from www.PlanningShop.com includes the Staffing Budget and will automatically handle these calculations and transfers for you.

Cash Projections

An important fact to remember when preparing your financial projections is that you will often not receive full payment at the time of an actual sale or transaction. Projecting cash flow solely on the sales made, rather than cash actually received, will leave you seriously short on money.

"Projections are actually far less important than the assumptions to projections. Generally, poor financials tend to be negative indicators rather than good financials being positive indicators. Are you assuming you'll get an 80% market share when there's no way you'll get 10%? Do you think that way?"

Andrew Anker
Venture Capitalist

Some industries have particularly long lag times between orders and payment. This can be especially true in manufacturing companies. A clothing manufacturer, for instance, may make sales many months before payment is due. Even in retail, you may find that you establish some credit accounts for very large or repeat customers and these customers take longer to pay.

Your business may allow payment terms over a number of months, or the type of work you do may make payment over time a necessity. In almost any company, some customers will be slow payers. While most customers may pay within 30 days, some may take as much as 120 days, and some will never pay at all. For instance, if you make a $10,000 sale in the month of February, you may only receive a deposit of $2,500 in February, with the rest paid as partial payments through June. Of course, you can try to reduce the amount of slow or non-payers by requiring larger percentages of payment at the time of sale or delivery or by charging interest on unpaid balances, but it is still necessary to anticipate actual payment patterns in your cash-flow projections.

It's also a good idea to differentiate between the income of each product or service line. While it may seem like a bit more work to keep track of each product or service line's income separately, this information will help you make decisions about the long-term direction of your company and better understand exactly where your profits come from.

Complete the Monthly Cash Income Projections worksheet on page 282. The information from this worksheet can then be transferred to your "Cash Flow Projection" forms and to your "Income Statement" forms if you operate your business on a cash, rather than accrual, accounting method. If yours is an existing business, review your past records to determine the average payment pattern to use in this form. If you are new to business, check with others in your industry to see what are typical payment patterns. Be conservative in your projections. It's always better to find out that you have more cash than you anticipated rather than less.

Income Statements

The Income Statement is also frequently called either a Profit and Loss statement—P & L—or Income and Expense statement. This form shows how profitable your company is—how much money it will make after all expenses are accounted for. It does not give a total picture of what your company is worth overall, or its cash position.

A company can be losing money but still be worth a great deal because it owns valuable property, or it can be profitable but still not have enough cash to pay its bills due to cash-flow problems. An income statement does not reveal either of these "hidden" situations.

You read an income statement from top to bottom. The first line accounts for sales. Each subsequent line represents deductions from income. The result is the company's profit (or, possibly, loss).

To prepare an income statement, accumulate detailed information about your sales and expenses. Specific lines on the form should mirror the categories by which you maintain your ongoing accounts. When completing the income statement, refer to the previous list of financial terms.

Additionally, note these references:

Gross Sales. Total sales from all product line categories.

Employee Benefits. Items such as health and dental insurance; any other benefits with specific costs associated.

Depreciation and Amortization. The value of either fixed assets (depreciation) or intangible assets (amortization) that is allocated as a yearly expense or deemed to be lost each year through use or obsolescence.

Office Supplies. Usual office or business supplies, rather than the materials necessary to produce the item for sale.

Marketing. Advertising and marketing expenses other than Travel, Entertainment/Meals, which may have different tax treatments; transfer this figure from your Marketing Budget worksheet in Chapter 10.

Travel. Costs of necessary business travel, including airfare, hotels, taxis, and so on; auto expenses (which may have different tax treatment) can go here or on a separate line.

Entertainment/Meals. Costs of entertaining customers, potential customers, employees; including events, parties, meals, and the like. These expenses typically are only partially tax deductible.

Insurance. Insurance premiums such as those for liability, malpractice, auto, or equipment insurance. Excludes insurance included in Employee Benefits line.

Professional Services. Attorney's, accountant's, designers', technology specialists', and consultant's fees.

Maintenance. Janitorial or cleaning services, regular maintenance programs or service contracts, and repairs.

Telephone/Telecommunications. Costs of telephone and telecommunications services. Costs of Internet access can go in this line or in Utilities.

Complete the income statements on the next few pages. Document income on a monthly (first year), quarterly (first two to three years), and annual basis (years four and five). If necessary, adjust the form to meet the needs of your company.

The supplemental Electronic Worksheets package available from www.PlanningShop.com includes the Income Statement worksheets and will automatically handle calculations and transfers from other worksheets for you.

> *"What kind of numbers do we like to see? The more mature a business is, the more we rely on numbers. For a newer business, the numbers matter less and the words matter more."*
>
> **Robert Mahoney**
> **Corporate Banker**

Staffing Budget					
For Year:___________	JAN	FEB	MARCH	APRIL	MAY
Management #Employees					
Salary/wages					
Benefits					
Payroll taxes					
Total Costs					
Administrative/Support #Employees					
Salary/wages					
Benefits					
Payroll taxes					
Total Costs					
Sales/Marketing #Employees					
Salary/wages					
Benefits					
Payroll taxes					
Total Costs					
Operations/Production #Employees					
Salary/wages					
Benefits					
Payroll taxes					
Total Costs					
Other #Employees					
Salary/wages					
Benefits					
Payroll taxes					
Total Costs					
TOTAL #Employees					
Salary/wages					
Benefits					
Payroll taxes					
TOTAL COSTS					

NOTE: A Microsoft Excel version of this worksheet is available as part of The Planning Shop's Electronic Financial Worksheets package, available from www.PlanningShop.com.

$ ➤ $$ ➤ $$$

JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL

Monthly Cash Income Projections					
For Year:______________	JAN	FEB	MARCH	APRIL	MAY
PRODUCT LINE #1 SALES **Cash Received** Current month sales					
30 days prior sales					
60 days prior sales					
90 days prior sales					
120 days prior sales					
Total Product #2 Cash Income					
PRODUCT LINE #2 SALES **Cash Received** Current month sales					
30 days prior sales					
60 days prior sales					
90 days prior sales					
120 days prior sales					
Total Product #2 Cash Income					
PRODUCT LINE #3 SALES **Cash Received** Current month sales					
30 days prior sales					
60 days prior sales					
90 days prior sales					
120 days prior sales					
Total Product #3 Cash Income					
PRODUCT LINE #4 SALES **Cash Received** Current month sales					
30 days prior sales					
60 days prior sales					
90 days prior sales					
120 days prior sales					
Total Product #4 Cash Income					
TOTAL CASH INCOME					

$➤$$➤$$$

JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL

Income Statement: Annual by Month					
For Year:____________________	JAN	FEB	MARCH	APRIL	MAY
INCOME **Gross Sales**					
(Commissions)					
(Returns and allowances)					
Net Sales					
(Cost of Goods)					
GROSS PROFIT					
EXPENSES - General and Administrative Salaries and wages					
Employee benefits					
Payroll taxes					
Professional services					
Marketing and advertising					
Rent					
Equipment rental					
Maintenance					
Depreciation					
Insurance					
Telecommunications					
Utilities					
Office supplies					
Postage and shipping					
Travel					
Entertainment					
Interest on loans					
Other:					
Other:					
TOTAL EXPENSES					
Net income before taxes					
Provision for taxes on income					
NET PROFIT					

NOTE: A Microsoft Excel version of this worksheet is available as part of The Planning Shop's Electronic Financial Worksheets package, available from www.PlanningShop.com.

$ ➤ $$ ➤ $$$

JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL

Income Statement: Annual by Quarter					$➤$$➤$$$
For Year:_______________	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL
INCOME **Gross Sales**					
(Commissions)					
(Returns and allowances)					
Net Sales					
(Cost of Goods)					
GROSS PROFIT					
EXPENSES - General and Administrative Salaries and wages					
Employee benefits					
Payroll taxes					
Professional services					
Marketing and advertising					
Rent					
Equipment rental					
Maintenance					
Depreciation					
Insurance					
Telecommunications					
Utilities					
Office supplies					
Postage and shipping					
Travel					
Entertainment					
Interest on loans					
Other:					
Other:					
TOTAL EXPENSES					
Net income before taxes					
Provision for taxes on income					
NET PROFIT					

Income Statement: Annual for Five Years					
	YR. ______	YR. ______	YR. ______	YR. ______	YR. ______
INCOME **Gross Sales**					
(Commissions)					
(Returns and allowances)					
Net Sales					
(Cost of Goods)					
GROSS PROFIT					
EXPENSES - General and Administrative Salaries and wages					
Employee benefits					
Payroll taxes					
Professional services					
Marketing and advertising					
Rent					
Equipment rental					
Maintenance					
Depreciation					
Insurance					
Telecommunications					
Utilities					
Office supplies					
Postage and shipping					
Travel					
Entertainment					
Interest on loans					
Other:					
Other:					
TOTAL EXPENSES					
Net income before taxes					
Provision for taxes on income					
NET PROFIT					

Cash-Flow Projections

For almost every business, cash-flow analysis is the single most important financial assessment. After all, if you can't pay your employees, your bills, or yourself, you're not going to stay in business long, and you're certainly not going to sleep very well at night.

The cash-flow projection is not about profit — it's about how much money you have in the bank. It doesn't tell you whether your company will show an overall profit at the end of the year or how many orders you are placing, but instead gives a real-life picture of the money going in and out of your business on a monthly basis.

Cash-flow analysis is particularly important for seasonal businesses, those with large inventories, or those that sell much of their merchandise on credit. You must plan for the slow months and for the long time lag between paying for materials and actually realizing cash receipts.

Maintaining historical cash-flow records gives you an idea of what to expect in certain months of the year and helps you plan future cash management. Get in the habit of keeping monthly cash-flow accounts.

In preparing these forms, separate out cash you receive from doing business (sales) and the cash you get from taking out loans or receiving investments (financing). This will give you a better sense of where your money is coming from and how much you are relying on credit. Note these items used in your cash-flow analysis:

Cash Sales. Sales made for immediate payment or prepayments.

Collections. Income collected from sales made in a previous period.

Interest Income. Income paid from bank and other interest-bearing accounts.

Loan Proceeds. Income from bank loans and other credit lines.

Cost of Goods. Actual payments made on items in this category. Cash and accrual accounting methods treat this line differently; consult your accountant.

Operating Expenses. Actual payments made on items in this category, minus depreciation (as depreciation is not an actual cash payment). Since cash and accrual accounting methods treat this line differently, consult your accountant.

Reserve. Money put into accounts for future, unanticipated expenses.

Owner's Draw. Money paid to owner in lieu of salary in a proprietorship, or money otherwise distributed to owners (except for expense reimbursement). In a corporation it is called a dividend and paid from after-tax income. Since this income to the owner is subject to federal and state taxes, your accountant may suggest that you add a provision for taxes to the income tax line on the cash-flow form.

Net Cash Flow. Money left over after all disbursements have been deducted from all cash received.

Opening Cash Balance. Amount of money in the bank at the beginning of the month being evaluated; should be the same as the previous month's ending cash balance.

Complete the cash-flow analysis, on a monthly basis for the first year (or two) and quarterly for the next year. The supplemental Electronic Worksheets package available from www.PlanningShop.com includes the Cash Flow worksheet and will automatically handle calculations and transfers from other worksheets for you.

"Cash flow is the only thing you worry about for the first four years anyway. Do cash projections! It was six months before I did profit and loss statements. The only number that matters is whether you can pay the bills."

Larry Leigon
Founder, Ariel Vineyards

Balance Sheet

For those who are new to business, the balance sheet is probably the least understood of the financial forms. In essence, the balance sheet gives a snapshot of the overall financial worth of the company—the value of all its various components and the extent of all its obligations.

The balance sheet accounts for all the company's assets minus all the company's liabilities. The remaining amount (if any) is figured to be the net worth of the company. The net worth is then distributed either as belonging to the owners of the company—equity—or as retained earnings for the company to use. These allotments are listed in the Liabilities category. Once you do this, the amounts in the Assets and Liabilities categories are equal: They balance.

While entrepreneurs rarely view the balance sheet as a planning tool, bankers and investors rely on the balance sheet to give them a fuller picture of the company's value. Only on the balance sheet can one see the worth of existing property and equipment. Some companies own valuable land or buildings that far exceed the income of the actual business; other businesses own expensive machinery. Other companies may be profitable but heavily in debt.

Refer to the General Financial Terms section at the beginning of this chapter for an explanation of the items listed on the balance sheet.

Additionally, note that the balance sheet uses these terms:

- **Land.** Often broken out separately on a balance sheet, because, unlike other property—such as buildings—land is subject to different tax treatment and often retains higher value.
- **Facilities.** The value of all buildings, warehouses, or other physical property owned by the business, excluding land and equipment.
- **Short-term notes payable.** Debts that are typically due to be paid off within a year. This includes lines-of-credit and other operating credit other than accounts payable.
- **Other current liabilities.** Other debts owed, including accounts payable.

When completing the balance sheet, you may find you need more help with this form than with any other, especially when trying to figure accumulated depreciation or the worth of inventory. Get help from your accountant or have your accountant prepare the form. But you must still understand it.

Cash Flow Projection: Annual by Month

For Year:________________	JAN	FEB	MARCH	APRIL	MAY
CASH RECEIPTS **Income from Sales** Cash sales					
Collections					
Total Cash from Sales					
Income from Financing Interest income					
Loan proceeds					
Total Cash from Financing					
Other cash receipts					
TOTAL CASH RECEIPTS					
CASH DISBURSEMENTS **Expenses** Inventory					
Operating expenses					
Commissions/returns & allowances					
Capital purchases					
Loan payments					
Income tax payments					
Investor dividend payments					
Owner's draw					
TOTAL CASH DISBURSEMENTS					
NET CASH FLOW					
Opening cash balance					
Cash receipts					
Cash disbursements					
ENDING CASH BALANCE					

NOTE: A Microsoft Excel version of this worksheet is available as part of The Planning Shop's Electronic Financial Worksheets package, available from www.PlanningShop.com.

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JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	TOTAL

Cash Flow Projection: Annual by Quarter					$ ➤ $$ ➤ $$$
For Year:________________	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**TOTAL**
CASH RECEIPTS **Income from Sales** Cash sales					
Collections					
Total Cash from Sales					
Income from Financing Interest income					
Loan proceeds					
Total Cash from Financing					
Other cash receipts					
TOTAL CASH RECEIPTS					
CASH DISBURSEMENTS **Expenses** Inventory					
Operating expenses					
Commissions/returns & allowances					
Capital purchases					
Loan payments					
Income tax payments					
Investor dividend payments					
Owner's draw					
TOTAL CASH DISBURSEMENTS					
NET CASH FLOW					
Opening cash balance					
Cash receipts					
Cash disbursements					
ENDING CASH BALANCE					

Balance Sheet

$➤ $$➤ $$$

Balance Sheet

For Company: ________________________________

For Period: __________ Ending:__________ , 20___

ASSETS			
Current Assets			
Cash	____________		
Accounts receivable	____________		
Inventory	____________		
Other current assets	____________		
Total Current Assets		____________	
Fixed Assets			
Land	____________		
Facilities	____________		
Equipment	____________		
Computers & telecommunications	____________		
(Less accumulated depreciation)	____________		
Total Fixed Assets		____________	
Other Assets		____________	
TOTAL ASSETS			==================
LIABILITIES			
Current Liabilities			
Short-term notes payable	____________		
Income taxes due	____________		
Other current liabilities	____________		
Total Current Liabilities		____________	
Long-Term Liabilities			
Long-term notes payable	____________		
Other long-term liabilities	____________		
Total Long-Term Liabilities		____________	
Net Worth			
Paid-in capital	____________		
Retained earnings	____________		
Total Net Worth		____________	
TOTAL LIABILITIES AND NET WORTH			==================

Include in the Financial section of your business plan.

! **NOTE:** A Microsoft Excel version of this worksheet is available as part of The Planning Shop's Electronic Financial Worksheets package, available from www.PlanningShop.com.

Since much of the information on balance sheets does not change very quickly, you can prepare balance sheets primarily on a quarterly or annual basis (unless, of course, your potential funding sources wants monthly projections).

The supplemental Electronic Worksheets package available from www.PlanningShop.com includes the Balance Sheet worksheets and will automatically handle calculations and transfers from other worksheets for you.

Sources and Use of Funds

If you are seeking outside financing, either through loans or investors, those contemplating giving you money will naturally want to know what you're going to do with the money you raise. They will also want to see what other sources of money you have, if any, and whether you have contributed any of your own funds.

"A sure killer for a proposal is a plan that shows improper use of funds. If all the funds aren't going to build the business, we're not interested in financing it."

Ann Winblad
Venture Capitalist

To provide such information, devise a one-page description of the sources and use of funds. This can go in the business plan itself or can be sent with the cover letter to potential financing sources. It should tell a potential investor that you have specific plans for the money you raise, that you are not taking on debts or giving up equity thoughtlessly, and that you will use funds to make your business grow.

Your "Sources and Use of Funds" statement on the following page is particularly helpful to you with investors or lenders if you show you are using your funds to start or expand a business rather than to offset existing debts (a use that investors notoriously dislike), if you already have some commitment of financing already from respected sources (which shows other people believe in your company), or are committing significant personal funds (which shows you believe in the project enough to take substantial personal risk).

In "Sources of Funds," you should include both funds you have received to date and the amounts you are now seeking, clearly delineating each.

In preparing the "Sources and Use of Funds" statement, consider the following issues and terms:

Funding Rounds. The number of development stages at which you will seek financing from the investment community.

Total Amount. Amount of money sought in this round of financing, from all funding sources.

Equity Financing. Amount you will raise by selling ownership interest in the company.

Preferred Stock. Outstanding stock for which dividends will be paid, before other dividends can be paid for common stock or before other obligations of the company are paid; investors often want preferred stock.

Common Stock. Stock for which dividends are paid when company is profitable and has paid preferred stock dividends and other obligations.

Debt Financing. Amount of money you will raise by taking out loans.

Long-Term Loans. Loans to be paid back in more than a year's time.

Sources and Use of Funds

Complete the following form to describe how much money you are seeking and how you will use the funds raised. Be as specific as possible: If you know what equipment you are going to buy, list it; if you have a loan from the First State Bank, state the name of the lending institution, amount, and terms.

Number of funding rounds expected for full financing: ______________________

Total dollar amount being sought in this round: ______________________

Sources of Funds

Equity Financing:

Preferred Stock: ______________________

Common Stock: ______________________

Debt Financing:

Mortgage Loans: ______________________

Other Long-Term Loans: ______________________

Short-Term Loans: ______________________

Convertible Debt: ______________________

Investment from Principals: ______________________

Uses of Funds

Capital Expenditures:

Purchase of Property: ______________________

Leasehold Improvements: ______________________

Purchase of Equipment/Furniture: ______________________

Other: ______________________

Working Capital: ______________________

Purchase of Inventory: ______________________

Staff Expansion: ______________________

New Product Line Introduction: ______________________

Additional Marketing Activities: ______________________

Other Business Expansion Activities: ______________________

Other: ______________________

Debt Retirement: ______________________

Cash Reserve: ______________________

Submit this with the Financial section of your business plan.

Mortgage Loans. Loans taken out with property as collateral.

Short-Term Loans. Bridge loans, credit lines, and other loans to be paid back in less than a year.

Convertible Debt. Loans that are later convertible to stock at the funder's option, giving both the security of a loan and the potential of stock.

Investment from Principals. Amount of money that you or other key employees are contributing to the company; this can be in the form of cash or property.

Capital Expenditures. Purchase of necessary equipment or property.

Working Capital. Funds to be used for the ongoing operating expenses of the business.

Debt Retirement. Funds used to pay off existing loans or obligations.

Assumption Sheet

Financial forms are merely meaningless numbers unless they are based on decisions and facts. Your potential financing sources want to see how you arrived at your numbers and must be convinced that your assumptions are reasonably accurate. If, for instance, you have indicated your sales at a certain amount, investors want to see what size you are assuming the market to be and what percentage of the market you are assuming you are going to be able to secure. If those figures seem realistic, you increase your credibility; if those assumptions seem based on inaccurate numbers or overly optimistic projections, investors are going to look at the rest of your plan with greater skepticism.

"In the financials, I look for a well-prepared, well-annotated balance sheet. And I like an Assumption Sheet with the Income Statement, so I know exactly how those figures got there."

Ann Winblad
Venture Capitalist

It is good discipline for you, as well, to learn to develop an assumption sheet whenever you do financial projections. Otherwise, you can be too easily tempted to write down figures that look good on paper but have little to do with reality.

If you have worked through the business planning process, putting together an assumption sheet should be a relatively easy task. You have already asked yourself most of the questions called for on this form and have the answers available to you.

An assumption sheet should list purely straightforward information; it does not require substantial detail or explanation. You do not even need to use sentences; just provide the data in each category. (You can use the first sentence, as written on the worksheet, on your own assumption sheet.) Be familiar with these assumptions so that you are ready to defend your assumptions when meeting with investors.

Complete the upcoming Assumption Sheet and include a finished Assumption Sheet at the conclusion of your financial forms in your business plan.

Break-Even Analysis

Finally, you want to determine how much income you must earn to pay your expenses—at what point you break even. At the break-even point you are neither making a profit nor losing money; you have just covered the cost of staying in business and making your sales. Most people new to business assume their break-even point is when sales equal the amount of fixed expenses: rent, telephone, insurance, and so forth. Fixed expenses are easy to determine, since they are in place from the time you first open your doors, and they remain relatively stable regardless of the amount of sales.

But because almost all sales have some costs associated with them, you must also figure the variable cost of sales into your break-even analysis; otherwise you do not have a true picture of your cost of doing business.

For instance, if you are a florist and your fixed expenses (rent, utilities, salaries, and so on) are $20,000 a month, it's not just enough to make $20,000 in sales: You would still be losing money. You must pay for flowers, vases, delivery, and commissions to floral wire services before you earn income on a sale. If these costs amount to an average of 30% of the cost of each sale, at $20,000 in income, you're still $6,000 in the hole ($20,000 in fixed expenses plus $6,000 in costs of goods).

The total cost of goods keeps rising as your sales rise; unlike your fixed costs, the figure keeps changing and is harder to pin down. But your gross profit margin—the average percentage you earn on each sale after direct costs are deducted—stays basically the same. (As you sell greater amounts, you may be able to increase your profit margin by receiving volume discounts; for the purpose of this exercise; however, you can assume a stable gross profit margin.)

To determine an actual break-even point, you must know your:

- Fixed expenses
- Gross profit margin (average percentage of gross income realized after cost of goods)

Then, to figure the amount of total sales needed to break even, you work the equation:

Fixed Expenses = Total Sales x Gross Profit Margin (GPM)

or, saying the same thing:

$$\frac{\text{Fixed Expenses}}{\text{GPM}} = \text{Total Sales}$$

"The best business plans are a combination of a PowerPoint presentation and a succinct and well-thought-out operating model, showing how the business would be run on the revenue and expense side. The most important thing is that it's based on the formula: revenue equals price times quantity. It should be a 'bottom up' financial model rather than 'I'm going to get 10% of the market.'"

Mark Gorenberg
Venture Capitalist

In the above example of the florist, we know:

- Fixed Expenses = $20,000
- Gross Profit Margin (GPM) = 70% (since cost of goods is 30%)

So, the numbers would look like:

$$\frac{20{,}000}{.70} = \text{Total Sales to Break Even}$$

Doing the arithmetic, we see that this florist must make $28,571 to reach the break-even point.

A break-even analysis is an important tool for your internal planning. However, it is not necessary for you to include a break-even analysis in a business plan submitted to outside funding sources. (Of course, there is nothing wrong with including it if you wish.)

Break-Even Analysis

Monthly Total Fixed Expenses (FE): $______________________

Gross Profit Margin, in percentage terms (GPM):______________%

Divide: FE: $__________ / GPM: __________ % = $__________ (Sales to Break Even)

Complete the worksheet above to figure your own break-even point. The supplemental Electronic Worksheets package available from www.Planning-Shop.com will perform a break-even analysis for you.

Chapter Summary

The financial portion of your business plan will consist mostly of the actual financial projections. You should include the following forms:

- Income Statement
- Cash-Flow Analysis
- Balance Sheet
- Sources and use of funds
- Assumption Sheet
- Start-up Costs (for a new business)

Additionally, you will want to do a break-even analysis for your internal planning.

It is advisable to get professional help in putting together your financial forms and setting up accounts. Set good financial procedures in place from the beginning of your business and stick to them. If yours is an existing business, review your procedures to make sure you have adequate control of billing and payments.

Get in the habit of reviewing your financial statements regularly and understanding what you read. Don't leave the finances entirely up to others, and don't be intimidated by numbers.

Assumption Sheet

The figures on the previous financial forms are based on the following assumptions:

SALES	Year		Year		Year		Annual Growth
Product Line	$	Units	$	Units	$	Units	Rate %
Total							

Describe the projected increase/decrease in selling price of each product line/service. ______________________

PERSONNEL/MANAGEMENT

Describe the number of employees and assumptions regarding total payroll projected in the financial forms. ________

Describe key management positions to be added, and timing. ______________________

GROSS PROFIT MARGIN

List the projected gross profit margin for each product line or service. ______________________

Describe any major changes in cost of goods that are projected to affect gross profit margin. ______________________

KEY EXPENSES

Describe the timing and costs of key projected expenses.

Plant Expansion or New Branches ______________________________

____

Major Capital Purchases______________________________

____

Major Marketing Expenses______________________________

____

Research and Development ______________________________

____

Other Key Expenses ______________________________

____

FINANCING

Describe any financing debt (loans) that are projected to be added or retired.

____

____

____

Describe the interest rates assumed to be in effect for these financial projections.

____

____

____

OTHER

Describe any other major developments that are assumed in creating your financial projections (such as strategic partnerships, competitive situation, etc.).

____

____

____

____

____

Submit this with the Financial section of your business plan.

Notes

SAMPLE PLAN: INCOME STATEMENT THREE-YEAR PROJECTION

INCOME STATEMENT

	2010	2011	2012
INCOME			
Gross Sales	**$466,000**	**$987,750**	**$1,637,230**
(Commissions)	19,220	122,720	165,840
(Returns and allowances)	0	0	0
Net Sales	**446,780**	**865,030**	**1,471,390**
(Cost of goods)	77,740	124,266	173,220
GROSS PROFIT	**369,040**	**740,764**	**1,298,170**
EXPENSES — General and Administrative			
Salaries and wages	178,000	353,600	453,200
Employee benefits	13,200	30,000	43,200
Payroll taxes	12,190	30,000	40,000
Professional services	15,100	10,000	12,000
Marketing and advertising	40,100	60,000	90,000
Rent	21,000	78,000	78,000
Equipment rental	23,500	76,000	96,000
Maintenance	1,200	4,800	9,000
Depreciation	4,000	8,000	8,000
Insurance	6,800	8,400	11,000
Telecommunications	3,500	3,600	4,000
Utilities	4,400	10,000	11,000
Office supplies	6,790	10,000	12,000
Postage and shipping	5,010	7,200	10,000
Travel	2,360	5,190	9,140
Entertainment	2,370	3,610	6,860
Interest on loans	2,750	3,000	0
Other: Technology	12,000	20,000	28,000
Other: Furniture	820	1,000	0
TOTAL EXPENSES	**355,090**	**722,400**	**921,400**
Net income before taxes	13,950	18,364	376,770
Provision for taxes on income	2,092	2,754	113,440
NET PROFIT	**11,858**	**15,610**	**263,330**

Shows increasing profit margin.

Includes sales personnel salaries in General & Administrative expenses.

SAMPLE PLAN: INCOME STATEMENT ANNUAL

Includes materials and freight in Cost of Goods.

Includes contractors and variable labor in Salaries & Wages.

Purchased $20,000 in Furniture and Equipment and depreciated it over five years; entered on Depreciation line.

INCOME STATEMENT

Year: 2010 (Actual through 8/31/10)

	JAN	FEB	MAR	APR	MAY
INCOME					
Gross Sales	**$0**	**$4,000**	**$4,000**	**$10,000**	**$24,000**
(Commissions)	0	0	0	0	700
(Returns and allowances)	0	0	0	0	0
Net Sales	**0**	**4,000**	**4,000**	**10,000**	**23,300**
(Cost of goods)	0	648	648	1,624	3,892
GROSS PROFIT	**0**	**3,352**	**3,352**	**8,376**	**19,408**
EXPENSES — General and Administrative					
Salaries and wages	5,000	7,400	11,400	12,400	15,400
Employee benefits	550	550	1,020	1,020	1,020
Payroll taxes	420	620	1,010	1,010	1,010
Professional services	5,000	500	4,000	400	400
Marketing and advertising	6,400	3,600	8,000	3,000	3,000
Rent	0	0	0	0	0
Equipment rental	500	500	500	500	500
Maintenance	0	0	0	0	0
Depreciation	4,000	0	0	0	0
Insurance	800	0	0	400	0
Telecommunications	200	100	200	200	240
Utilities	500	120	250	420	320
Office supplies	900	250	430	370	250
Postage and shipping	420	160	620	130	900
Travel	110	300	200	300	0
Entertainment	0	0	220	640	390
Interest on loans	0	250	250	250	250
Other: Technology	6,000	0	0	0	0
Other: Furniture	0	0	0	820	0
TOTAL EXPENSES	**30,800**	**14,350**	**28,100**	**21,860**	**23,680**
Net income before taxes	(30,800)	(10,998)	(24,748)	(13,484)	(4,272)
Provision for taxes on income	0	0	0	0	0
NET PROFIT	**(30,800)**	**(10,998)**	**(24,748)**	**(13,484)**	**(4,272)**

SAMPLE PLAN: INCOME STATEMENT ANNUAL (continued)

JUNE	JULY	AUG	SEP	OCT	NOV	DEC	TOTAL
$32,000	**$41,000**	**$56,000**	**$68,400**	**$83,600**	**$100,000**	**$43,000**	**$466,000**
1,500	1,550	2,470	3,000	3,700	4,400	1,900	$19,220
0	0	0	0	0	0	0	$0
30,500	**39,450**	**53,530**	**65,400**	**79,900**	**95,600**	**41,100**	**$446,780**
5,190	6,898	9,482	11,382	13,852	16,800	7,324	$77,740
25,310	**32,552**	**44,048**	**54,018**	**66,048**	**78,800**	**33,776**	**$369,040**
16,800	12,600	19,800	18,200	20,200	22,200	16,600	$178,000
1,020	1,020	1,400	1,400	1,400	1,400	1,400	$13,200
1,010	1,010	1,220	1,220	1,220	1,220	1,220	$12,190
400	400	2,400	400	400	400	400	$15,100
600	3,000	3,500	4,000	500	4,000	500	$40,100
0	0	4,200	4,200	4,200	4,200	4,200	$21,000
500	500	4,000	4,000	4,000	4,000	4,000	$23,500
0	0	240	240	240	240	240	$1,200
0	0	0	0	0	0	0	$4,000
0	400	2,000	700	1,100	700	700	$6,800
260	200	500	400	400	400	400	$3,500
400	350	520	440	420	360	300	$4,400
170	220	2,200	500	500	500	500	$6,790
170	520	120	820	150	600	400	$5,010
50	200	0	300	300	300	300	$2,360
400	150	170	100	100	100	100	$2,370
250	250	250	250	250	250	250	$2,750
6,000	0	0	0	0	0	0	$12,000
0	0	0	0	0	0	0	$820
28,030	**20,820**	**42,520**	**37,170**	**35,380**	**40,870**	**31,510**	**$355,090**
(2,720)	11,732	1,528	16,848	30,668	37,930	2,266	$13,950
0	0	0	0	0	0	2,092	$2,092
(2,720)	**11,732**	**1,528**	**16,848**	**30,668**	**37,930**	**174**	**$11,858**

Enters investment from S. Connors as Other Cash Receipts.

Operating Expenses is total of G & A and Sales Expenses minus depreciation.

Shows $20,000 Equipment and Furniture payment as January cash disbursement.

Cash disbursements deducted from opening cash balance and cash receipts.

SAMPLE PLAN: CASH FLOW PROJECTIONS

CASH-FLOW PROJECTION

Year: 2010

	JAN	FEB	MAR	APR	MAY
CASH RECEIPTS					
Income from Sales					
Cash sales	$0	$4,000	$4,000	$10,000	$24,000
Collections	0	0	0	0	0
Total Cash from Sales	**0**	**4,000**	**4,000**	**10,000**	**24,000**
Income from Financing					
Interest income	0	0	0	0	0
Loan proceeds	30,000	0	0	12,000	20,000
Equity capital investments	40,000	0	20,000	0	0
Total Cash from Financing	**70,000**	**0**	**20,000**	**12,000**	**20,000**
Other cash receipts	0	0	0	0	0
TOTAL CASH RECEIPTS	**70,000**	**4,000**	**24,000**	**22,000**	**44,000**
CASH DISBURSEMENTS					
Expenses					
Inventory	0	648	648	1,624	3,892
Operating Expenses	30,800	14,350	28,100	21,860	23,680
Commissions/Returns & Allowances	0	0	0	0	700
Capital Purchases	20,000	0	0	0	0
Loan Payments	0	250	250	250	250
Income tax payments	0	0	0	0	0
Investor dividend payments	0	0	0	0	0
Owner's draw	0	0	0	0	0
TOTAL CASH DISBURSEMENTS	**50,800**	**15,248**	**28,998**	**23,734**	**28,522**
NET CASH FLOW	**19,200**	**(11,248)**	**(4,998)**	**(1,734)**	**15,478**
Opening cash balance	0	19,200	7,952	2,954	1,220
Cash receipts	70,000	4,000	24,000	22,000	44,000
Cash disbursements	(50,800)	(15,248)	(28,998)	(23,734)	(28,522)
ENDING CASH BALANCE	**19,200**	**7,952**	**2,954**	**1,220**	**16,698**

SAMPLE PLAN: CASH FLOW PROJECTIONS (continued)

JUNE	JULY	AUG	SEP	OCT	NOV	DEC	TOTAL
$24,000	31,000	39,600	40,000	61,600	70,000	31,000	$339,200
8,000	10,000	16,400	28,400	22,000	30,000	12,000	$126,800
32,000	**41,000**	**56,000**	**68,400**	**83,600**	**100,000**	**43,000**	**$466,000**
0	0	0	0	0	0	0	$0
0	0	8,000	0	0	0	0	$70,000
0	0	0	0	0	0	0	$60,000
0	0	8,000	0	0	0	0	$130,000
32,000	**41,000**	**64,000**	**68,400**	**83,600**	**100,000**	**43,000**	**$596,000**
0	0	0	0	0	0	0	0
32,000	**41,000**	**64,000**	**68,400**	**83,600**	**100,000**	**43,000**	**$596,000**
5,190	6,898	9,482	11,382	13,852	16,800	7,324	$77,740
28,030	20,820	42,520	37,170	35,380	40,870	31,510	$355,090
1,500	1,550	2,470	3,000	3,700	4,400	1,900	$19,220
0	0	0	0	0	0	0	$20,000
250	250	250	250	250	10,250	20,250	$32,750
0	0	0	0	0	0	0	$0
0	0	0	0	0	0	0	$0
0	0	0	0	0	5000	5000	$10,000
34,970	**29,518**	**54,722**	**51,802**	**53,182**	**82,320**	**70,984**	**$524,800**
(2,970)	**11,482**	**9,278**	**16,598**	**30,418**	**17,680**	**(27,984)**	**$72,200**
16,698	13,728	25,210	34,488	51,086	81,504	99,184	$0
32,000	41,000	64,000	68,400	83,600	100,000	43,000	$596,000
(34,970)	(29,518)	(54,722)	(51,802)	(53,182)	(82,320)	(70,984)	($524,800)
13,728	**25,210**	**34,488**	**51,086**	**81,504**	**99,184**	**71,200**	

SAMPLE PLAN: BALANCE SHEET

BALANCE SHEET

For ComputerEase, Inc.
For Year Ending: December 31, 2010

ASSETS			
Current Assets			
Cash	$71,200		
Accounts receivable	34,400		
Inventory	4,200		
Other current assets	1,560		
Total Current Assets		**$111,360**	
Fixed Assets			
Land	0		
Facilities	0		
Equipment	20,000		
Computers & telecommunications	0		
Less accumulated depreciation	(4,000)		
Total Fixed Assets		**$16,000**	
Other Assets		**0**	
TOTAL ASSETS			**$127,360**
LIABILITIES			
Current Liabilities			
Short-term notes payable	27,350		
Income taxes due	6,100		
Other current liabilities	590		
Total Current Liabilities		**$34,040**	
Long-Term Liabilities			
Long-term notes payable	30,000		
Other long-term liabilities	0		
Total Long-Term Liabilities		**$30,000**	
Net Worth			
Shareholders' equity	63,320		
Retained earnings	0		
Total Net Worth		**$63,320**	
TOTAL LIABILITIES AND NET WORTH			**$127,360**

$20,000 in Furniture and Equipment shows as company asset minus depreciation taken as expenses.

Short-term loan from S. Connors due in less than one year.

Long-term loan from L. Silver due in more than one year.

Owners' interest in company is valued at $63,320 at end of year.

SAMPLE PLAN: SOURCES AND USE OF FUNDS

SOURCES AND USE OF FUNDS

Total Dollar Amount Being Sought: $160,000 in equity financing. The company prefers that this entire amount be secured from only one investor.

Funding Rounds: ComputerEase expects only one funding round for full financing. If the company were to later become a franchise, another funding round would be considered at that time.

USE OF FUNDS	
Capital Expenditures	
Leasehold Improvements	$10,000
Purchase of Equipment and Furniture	30,000
Total Capital Expenditures	**40,000**
Working Capital	
Purchase of Inventory	10,000
Staff Expansion	50,000
Additional Marketing Activities	30,000
Other Business Expansion Activities	30,000
Total Working Capital	**120,000**
TOTAL USE OF FUNDS	**$160,000**

SAMPLE PLAN: ASSUMPTIONS

ASSUMPTIONS

The figures on the previous financial forms are based on these assumptions:

Sales by line ($ expressed in 000's)	**2010 $ / Units**	**2011 $ / Units**	**2012 $ / Units**	**Growth Rate 2011–2012**
Training Center classes (Corporate)	91 / 11	228 / 25	443 / 45	80%
On-Site (Corporate)	223 / 25	310.5 / 30	440.3 / 39	30%
Center classes (Saturday)	27.7 / 11	207.1 / 40	207.1 / 60	50%
Online classes	125 / 16	242.2 / 28	545.5 / 58	107%

These sales figures reflect price increases of 10% annually for Corporate Training Center classes and online classes; 15% in 2011 and 10% in 2012 for corporate on-site training classes, and 10% in 2011 and 15% in 2012 for Saturday classes.

Personnel

The staff size of the company (two FT professionals and one PT support) will stay constant for the remainder of 2010. In 2011, the payroll increases to four FT professionals, one FT support, and one PT support. In 2012, the payroll is projected at four FT professionals, one PT professional, and two FT support.

Expansion

Figures in these projections assume opening a second Training Center classroom on 1/1/11. Direct costs associated with expansion include leasehold improvements, equipment/furniture, and marketing. Additional operating costs include equipment rental and addition of a staff trainer. This expansion increases capacity in corporate training classes by 100%.

Financing

To date, ComputerEase has been financed by a $60,000 investment from Scott E. Connors; a $30,000, 10% interest-only loan from L. Silver (Mr. Connors' sister-in-law), due 12/31/10; and a $40,000 no-interest loan from Mr. Connors, principal due on or before 3/31/11. Projections call for the retirement of $30,000 of the Connors loan in 2010, with the remainder by 3/31/11, and the remainder of the Silver loan when due. The 2011–12 financial projections assume securing an additional $160,000 of investment income by 1/1/11.