VI. Financial Analysis

6.1 Financial Management

Based on the particular products or services you intend to offer, explain how you expect to make our business profitable and within what period of time. Will your business provide you with a good cash flow or will you have to be concerned with a sizeable Accounts Receivable and possible bad debts or collections?

The full details of your start-up and operating costs should be included in the Appendix. However, you can reference appropriate tables, charts, or page numbers as you give a brief, summary accounting of your start-up needs and operating budget.

- Start-up needs should include any one-time purchases such as major equipment or supplies, down-payments or deposits, as well as legal and professional fees, licenses/permits, insurance, renovation/design/decoration of your location, personnel costs prior to opening, advertising, or promotion.
- Once you are ready to open your business, you will need an operating budget to help prioritize expenses. It should include the money you need to survive the first three to six months of operation and indicate how you intend to control the finances of your company. Include the following expenses: rent, utilities, insurance, payroll (including taxes), loan payments, office supplies, travel, and entertainment, legal and accounting, advertising and promotion, repairs and maintenance, depreciation, and any other categories specific to your business.

  You can also include information (or cross-reference other sections of this business plan if covered elsewhere) about the type of accounting and inventory control system you are using, intend to use, or, where applicable, your franchisor intends for you to use.

Start-Up/Acquisition Summary

Appendix

Start-Up Expenses

Business Licenses	
Incorporation Expenses	
Deposits	
Bank Account	
Rent	
Interior Modifications	
Equipment/Machinery Required:	
Item 1	
Item 2	
Item 3	
Total Equipment/Machinery	
Insurance	

Stationery/Business Cards	
Brochures	
Pre-Opening Advertising	
Opening Inventory	
Other (list):	
Item 1	
Item 2	
TOTAL STARTUP EXPENSES	

Determining Start-Up Capital

1. *Begin by filling in the figures for the various types of expenses in the cash flow table on the following page.*
2. *Start your first month in the table that follows with starting cash of $0, and consolidate your "cash out" expenses from your cash flow table under the three main headings of rent, payroll and other (including the amount of unpaid start-up costs in "other" in month 1).*
3. *Continue the monthly projections in the table that follows until the ending balances are consistently positive.*
4. *Find the largest negative balance—this is the amount needed for start-up capital in order for the business to survive until the break-even point when all expenses will be covered by income.*
5. *Continue by inserting the amount of needed start-up capital into the cash flow table as the starting cash for Month 1.*

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8
Starting cash	$0.00							
Cash In:								
Cash Sales Paid								
Receivables								
Total Cash In								
Cash Out:								
Rent								
Payroll								
Other								
Total Cash Out								
Ending Balance								
CHANGE (CASH FLOW)								

Cash Flow

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Starting cash												
Cash In:												
Cash Sales												
Receivables												
Total Cash Intake												
Cash Out (expenses):												
Rent												
Utilities												
Payroll (incl. taxes)												
Benefits												

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Loan Payments												
Travel												
Insurance												
Advertising												
Professional fees												
Office supplies												
Postage												
Telephone												
Internet												
Bank fees												
Total Cash Outgo												
ENDING BALANCE												

Income Projection Statement

The Income Projection Statement is another management tool to preview the amount of income generated each month based on reasonable predictions of the monthly level of sales and costs/expenses. As the monthly projections are developed and entered, these figures serve as goals to control operating expenses. As actual results occur, a comparison with the predicted amounts should produce warning bells if costs are getting out of line so that steps can be taken to correct problems.

The **Industrial Percentage** *(Ind. %) is calculated by multiplying costs/expenses by 100% and dividing the result by total net sales. It indicates the total sales that are standard for a particular industry. You may be able to get this information from trade associations, accountants, banks, or reference libraries. Industry figures are a useful benchmark against which to compare the costs/expenses of your own business. Compare your annual percentage with the figure indicated in the industry percentage column.*

The following is an explanation for some of the terms used in the table that follows:

Total Net Sales (Revenue): *This figure is your total estimated sales per month. Be as realistic as possible, taking into consideration seasonal trends, returns, allowances, and markdowns.*

Cost of Sales: *To be realistic, this figure must include all the costs involved in making a sale. For example, where inventory is concerned, include the cost of transportation and shipping. Any direct labor cost should also be included.*

Gross Profit: *Subtract the cost of sales from the total net sales.*

Gross Profit Margin: *This is calculated by dividing gross profits by total net sales.*

Controllable Expenses: *Salaries (base plus overtime), payroll expenses (including paid vacations, sick leave, health insurance, unemployment insurance and social security taxes), cost of outside services (including subcontracts, overflow work and special or one-time services), supplies (including all items and services purchased for use in the business), utilities (water, heat, light, trash collection, etc.), repair and maintenance (including both regular and periodic expenses, such as painting), advertising, travel and auto (including business use of personal car, parking, and business trips), accounting and legal (the cost of outside professional services).*

Fixed Expenses: *Rent (only for real estate used in business), depreciation (the amortization of capital assets), insurance (fire, liability on property or products, workers' compensation, theft, etc.), loan repayments (include the interest and principal payments on outstanding loans to the business), miscellaneous (unspecified, small expenditures not included under other accounts or headings).*

Net Profit/Loss (Before Taxes): *Subtract total expenses from gross profit.*

Taxes: *Inventory, sales, excise, real estate, federal, state, etc.*

Net Profit/Loss (After Taxes): *Subtract taxes from net profit before taxes.*

Annual Total: *Add all monthly figures across the table for each sales and expense item.*

Annual Percentage: *Multiply the annual total by 100% and divide the result by the total net sales figure. Compare to industry percentage in first column.*

	Ind. %	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Total	Annual %
Est. Net Sales															
Cost Of Sales															
Gross Profit															
Controllable Expenses:															
Salaries/Wages															
Payroll Expenses															
Legal/Accounting															
Advertising															
Travel/Auto															
Dues/Subs.															
Utilities															
Misc.															
Total Controllable Exp.															

	Ind. %	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Total	Annual %
Fixed Expenses:															
Rent															
Depreciation															
Insurance															
Permits/Licenses															
Loan Payments															
Misc.															
Total Fixed Expenses															
Total Expenses															
Net Profit/Loss Before Taxes															
Taxes															
NET PROFIT/LOSS AFTER TAXES															

Profit and Loss Statement

This table essentially contains the same basic information as the income projection statement. Established businesses use this form of statement to give comparisons from one period to another. Many lenders may require profit and loss statements for the past three years of operations.

Instead of comparing actual income and expenses to an industrial average, this form of the profit and loss statement compares each income and expense item to the amount that was budgeted for it. Most computerized bookkeeping systems can generate a profit and loss statement for the period(s) required, with or without budget comparison.

Profit and Loss, Budget vs. Actual: ([Starting Month, Year]—[Ending Month, Year])

	[Starting Month, Year]—[Ending Month, Year]	Budget	Amount over Budget
Income:			
Sales			
Other			
Total Income			
Expenses:			
Salaries/Wages			
Payroll Expenses			
Legal/Accounting			
Advertising			
Travel/Auto			
Dues/Subs.			
Utilities			

	[Starting Month, Year]—[Ending Month, Year]	Budget	Amount over Budget
Rent			
Depreciation			
Permits/Licenses			
Loan Repayments			
Misc.			
Total Expenses			
NET PROFIT/LOSS			

Balance Sheet

Following are guidelines for what to include in the balance sheet: (For use in established businesses)

Assets: Anything of value that is owned or is legally due to a business. Total assets include all net values; the amounts that result from subtracting depreciation and amortization from the original cost when the asset was first acquired.

Current Assets:

Cash—Money in the bank or resources that can be converted into cash within 12 months of the date of the balance sheet.

Petty Cash—A fund of cash for small, miscellaneous expenditures.

Accounts Receivable—Amounts due from clients for merchandise or services.

Inventory—Raw materials on hand, work-in-progress, and all finished goods (either manufactured or purchased for resale).

Short-term Investments—Interest or dividend-yielding holdings expected to be converted to cash within a year; stocks, bonds, certificates of deposit and time-deposit savings accounts. These should be shown at either their cost or current market value, whichever is less. Short-term investments may also be called “temporary investments” or “marketable securities.”

Prepaid Expense—Goods, benefits or services that a business pays or rents in advance, such as office supplies, insurance or workspace.

Long-term Investments—Holdings that a business intends to retain for at least a year. Also known as long-term assets, these are usually interest or dividend paying stocks, bonds or savings accounts.

Fixed Assets—This term includes all resources that a business owns or acquires for use in its operations that are not intended for resale. They may be leased rather than owned and, depending upon the leasing arrangements, may have to be included both as an asset for the value and as a liability. Fixed assets include land (the original purchase price should be listed, without allowance for market value), buildings, improvements, equipment, furniture, vehicles.

Liabilities:

Current Liabilities: Include all debts, monetary obligations, and claims payable within 12 months.

Accounts Payable—Amounts due to suppliers for goods and services purchased for the business.

Notes Payable—The balance of the principal due on short-term debt, funds borrowed for the business. Also includes the current amount due on notes whose terms exceed 12 months.

Interest Payable—Accrued amounts due on both short and long-term borrowed capital and credit extended to the business.

Taxes Payable—Amounts incurred during the accounting period covered by the balance sheet.

Payroll Accrual—Salaries and wages owed during the period covered by the balance sheet.

Long-term Liabilities—Notes, contract payments, or mortgage payments due over a period exceeding 12 months. These should be listed by outstanding balance less the current position due.

Net Worth—Also called owner’s equity. This is the amount of the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, this equity is each owner’s original investment plus any earnings after withdrawals.

Most computerized bookkeeping systems can generate a balance sheet for the period(s) required.

Note: Total assets will always equal total liabilities plus total net worth. That is, the bottom-line figures for total assets and total liabilities will always be the same.

Assets	
Current Assets:	
Cash:	
Petty Cash	
Accounts Receivable	
Inventory	
Short-Term Investment	
Prepaid Expense	
Long-Term Investment	
Fixed Assets:	
Land	
Buildings	
Improvements	
Equipment	
Furniture	
Automobiles/Vehicles	
Other Assets:	

Liabilities	
Current Liabilities:	
Accounts Payable	
Notes Payable	
Interest Payable	
Taxes Payable:	
Federal Income Tax	
State Income Tax	
Self-Employment Tax	
Sales Tax (SBE)	
Property Tax	
Payroll Accrual	
Long-Term Liabilities	
Notes Payable NET WORTH/OWNER'S EQUITY/RETAINED EARNINGS	

Item 1				
Item 2				
Item 3				
TOTAL ASSETS:			TOTAL LIABILITIES:	

Sales Forecast

This information can be shown in chart or table form, either by months, quarters or years, to illustrate the anticipated growth of sales and the accompanying cost of sales.

Break-Even Analysis

Use this section to evaluate your business profitability. You can measure how close you are to achieving that break-even point when your expenses are covered by the amount of your sales and are on the brink of profitability.

A break-even analysis can tell you what sales volume you are going to need in order to generate a profit. It can also be used as a guide in setting prices.

There are three basic ways to increase the profits of your business: generate more sales, raise prices, and/or lower costs. All can impact your business: if you raise prices, you may no longer be competitive; if you generate more sales, you may need added personnel to service those sales which would increase your costs. Lowering the fixed costs your business must pay each month will have a greater impact on the profit margin than changing variable costs.

Fixed costs: *Rent, insurance, salaries, etc.*

Variable costs: *The cost at which you buy products, supplies, etc.*

Contribution Margin: *This is the selling price minus the variable costs. It measures the dollars available to pay the fixed costs and make a profit.*

Contribution Margin Ratio: *This is the amount of total sales minus the variable costs, divided by the total sales. It measures the percentage of each sales dollar to pay fixed costs and make a profit.*

Break-even Point: *This is the amount when the total sales equals the total expenses. It represents the minimum sales dollar you need to reach before you make a profit.*

Break-even Point in Units: *For applicable businesses, this is the total of fixes costs divided by the unit selling price minus the variable costs per unit. It tells you how many units you need to sell before you make a profit.*

Break-even Point in Dollars: *This is the total amount of fixed costs divided by the contribution margin ratio. It is a method of calculating the minimum sales dollar to reach before you make a profit.*

Note*: If the sales dollars are below the break-even point, your business is losing money.*