Financial Control Documents

Growth (or Start-Up) Expenses

Growth expenses are directly related to growing or expanding your business. They might include renovating an existing space, building a new space, or opening a second location. Start -up expenses are the various expenses it takes to launch a new business component. The majority of these expenses will be one-time expenditures. Examples of expense categories are listed on the next page.

For new businesses, the purpose of isolating start-up expenses is to prepare for higher costs in the early opening months of the business, and to understand the total costs required to get the business started. For existing businesses, the purpose of isolating growth expenses is to calculate the cost of launching your growth project separately from your existing business expenses. You will then be able to integrate these costs into your cash flow projection, to see whether the business can fund the growth itself, or additional funding is required.

Step 1 *If you are starting a business, enter* ***Cash Available Now*** *for starting your business. If you are an existing business, Cash Available Now is the current cash balance in your business.*

Step 2 *Review the expenses listed on the next page. You will probably use most of the expense items on this list for your growth or start-up project. You may have some expenses not listed. Write them under* ***Other Expenses*** *.*

Step 3 *Estimate your cost for each expense. Try to be as accurate as possible. You may have to call an insurance agent, get bids on construction, or contact other professionals to obtain bids and get an accurate estimate of costs.*

Step 4 *Calculate the total for your expenses.*

Step 5 *Calculate* ***Beginning Cash Balance*** *or* ***Additional Cash Required*** *by subtracting* ***Total Growth/Start-Up Expenses*** *from* ***Cash Available Now*** *(A-B=C). This amount will be used to start the* ***Cash Flow Projection*** *Worksheet.*

Step 6 *Document your assumptions.*

For each item of expense, you will need to explain how you arrived at the estimated costs. Use the lines below the worksheet to write your assumptions about the corresponding expense item.

Note: Some of these expense items show up on other worksheets as ongoing costs to your business. However, on this worksheet, we are isolating one-time extraordinary expenses relating specifically to growth or start-up.

Growth (or Start-Up) Expenses Worksheet

		Cost
	Cash Available Now (A)	
1	Purchase fixed assets (land, equipment, buildings, vehicles) (See **Fixed Assets Worksheets**)	
2	Remodeling costs (buildings, fixtures, signs, paint,cleaning)	
3	Installation fees (equipment, phones, hookup charges)	
4	Deposits (utilities, lease, phone, leased equipment)	
5	Fees, licenses, certifications	
6	Special one-time legal fees (specifically for growth or startup)	
7	Special accounting/other professional fees	
8	Pre-opening labor expense	
9	Pre-opening training costs	
10	Beginning inventory of merchandise or materials	
11	Supplies (letterhead, forms, price tags)	
12	Promotion (grand opening, prizes, giveaways)	
13	Advertising (initial media, direct mail, coupons)	
	Other expenses (one-time, specifically related to growth/start-up)	
14		
15		
	Total Growth (or Start-Up) Expenses (B)	
	Beginning Cash Balance -OR- Additional Cash Required (A - B)	

	Assumptions for Growth (or Start-Up) Expenses Worksheet
1	
2	
3	
4	
5	
6	
7	
8	
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12	
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14	
15	

Fixed Assets

This section will help you plan the purchases of **fixed assets,** which are assets with useful lives of more than one year (e.g., land, buildings, leasehold improvements, machines, equipment, office furniture, and computers).

This section also will help you calculate the monthly **depreciation** for each fixed asset. Depreciation is defined as the original cost of the equipment divided by the useful life (in months) of the equipment. For example, a truck might cost $6000 and have a useful life of five years (60months). The truck's monthly depreciation would be $100 per month ($6000 divided by 60 months). This example is called **straight-line depreciation.** There are several other methods for calculating depreciation. Consult your accountant to determine the depreciation schedule most applicable to your business. Land is not depreciated, so be sure to deduct its value and only depreciate buildings located on the land.

Step 1 *List each fixed asset to be purchased during the next year.*

Step 2 *Fill in the cost of each fixed asset (new or used) and the estimated acquisition date.* Be sure you have analyzed whether you should purchase new, purchase used, or lease.

Step 3 *Estimate the useful life (in months) of eachfixed asset to be purchased.*

The IRS has some guidelines on allowable useful life by asset category. Seek that information before estimating useful life, or consult your accountant.

Step 4 *Fill in the monthly depreciation for each fixed asset to be purchased (cost divided by useful life in months).*

Step 5 *Calculate the* ***Annual Depreciation*** *cost for each fixed asset by multiplying Monthly Depreciation by the number of months from the date of acquisition that are in the (fiscal/accounting) year.*

There are IRS regulations concerning partial-month depreciation for the month in which an asset is aquired. However, this calculation will give you a close estimate.

Step 6 *Calculate the Total Cost for fixed assets to be purchased and Total Monthly and Total Annual Fixed Assets Depreciation.*

Step 7 *On the* ***Fixed Assets Summary Worksheet*** *, total New and Existing Fixed Assets. Fill in the total cost, and monthly and annual depreciation of existing fixed assets. Fill in the total cost, and monthly and annual depreciation of new assets to be purchased. Now, you have the total annual depreciation expense, which will be used in later worksheets.*

If you are an existing business or are transfering assets into the business, use last year's accounting information for existing fixed assets. Again, consult your accounting professional for help.

Step 8 *Calculate the totals for new and existing fixed assets.*

Fixed Assets Worksheet

List of Fixed Assets	New or Used	Cost	Acquisition Date	Useful Life (in months)	Monthly Depreciation	Annual Depreciation
	Total Cost	**$**		**Total Fixed Assets**	**$**	**$**

Fixed Assets Summary Worksheet

Total New Acquisitions and Existing Fixed Assets	Cost	Monthly Depreciation	Annual Depreciation
New Fixed Assets (from previous worksheet)			
Existing Fixed Assets (obtain totals from accountant or current records)			
Total Fixed Assets	**$**	**$**	**$**

Balance Sheet

The **balance sheet** is a snapshot of your business's financial condition on a particular day. This statement is a list of your business assets (what your business owns at cost), and liabilities (what your business owes). The **owner's equity** in these assets is the difference between the dollar value of the assets and the associated liabilities.

You are going to prepare a balance sheet as of the end of your last fiscal year, or the start-up date of your business. You will be filling in the left-hand *(Current)* Balance Sheet on the folllowing page. You should include all assets and liabilities as of the appropriate date. In a later session, you will return to the right-hand side of this sheet and also prepare a projected balance sheet for a date one year in the future.

Step 1 *Fill in the amounts for each of the* ***Current Assets*** *and calculate the* ***Total Current Assets*** *.*

If you are an existing business, use historical information as of the end of your last fiscal year. If you are starting a new business, use numbers as of the start-up date of your business.

Step 2 *Fill in the amounts for each of the* ***Fixed Assets--Land, Buildings, Equipment, and Other*** *--less accumulated depreciation, and calculate Total Fixed Assets.*

Step 3 *Calculate the Total Assets (Total Current Assets + Total Fixed Assets).*

Step 4 *Fill in the amounts for each liability, and calculate the required totals.*

Step 5 *Calculate the* ***Owner's Equity*** *(* ***Total Assets - Total Liabilities*** *).*

Step 6 *Fill in the amount of* ***Total Liabilities*** *+* ***Owner's Equity*** *. This amount must equal the amount for* ***Total Assets*** *.*

Note: When you return to this worksheet to complete the one-year projection, you will repeat steps 1 through 6.

Now, let's use the information in the balance sheet as a measurement tool. Lenders are particularly intersted in your business's short-term ability to pay current and unexpected debts. This is referred to as *liquidity.* **Liquidity ratios** provide the measurement of your business's ability to meet short-term debt. Your industry research will tell you what the benchmarks are for these ratios, as will your banker.

Step 7 *Calculate the liquidiy ratios shown, and determine the amount of working capital your business currently has.*

Balance Sheet Worksheet

Current	
Date Prepared:	
Assets	
Current Assets	
Cash	$
Accounts Receivable	
Inventory	
Other Current Assets	
Total Current Assets	
Fixed Assets	
Land	$
Buildings (less accum. depr.)	
Equipment (less accum. depr.)	
Other fixed assets (less accum. depr.)	
Total Fixed Assets	
(A) Total Assets	
Liabilities	
Current Liabilities	
Accounts Payable	$
Other Current Liabilities	
Total Current Liabilities	
Long-term Liabilities	
Debt	$
Other Long-term Liabilities	
Total Long-term Liabilities	
(B) Total Liabilities	
(A - B) Owner's Equity	$

Projected	
Date Prepared:	
Assets	
Current Assets	
Cash	$
Accounts Receivable	
Inventory	
Other Current Assets	
Total Current Assets	
Fixed Assets	
Land	$
Buildings (less accum. depr.)	
Equipment (less accum. depr.)	
Other fixed assets (less accum. depr.)	
Total Fixed Assets	
(A) Total Assets	
Liabilities	
Current Liabilities	
Accounts Payable	$
Other Current Liabilities	
Total Current Liabilities	
Long-term Liabilities	
Debt	$
Other Long-term Liabilities	
Total Long-term Liabilities	
(B) Total Liabilities	
(A - B) Owner's Equity	$

Check your math. Total Assets must equal Total Liabilities plus Owner's Equity.

Liquidity Ratios

Current Ratio:

Current Assets ÷ Current Liabilities = _____ Benckmark:_____

Quick Ratio:

(Current Assets - Inventory) ÷ Current Liabilities = _____ Benckmark:_____

Working Capital:

Current Assets - Current Liabilities = _____ Minimum:_____

Sales Forecast

Forecasting sales is critical to your business, from both a management and revenue point of view. If you don't know how much you plan to sell in the next 12 months, you can't plan how much to spend, nor can you project a profit picture for the future.

Remember to be realistic in your projections. Look for trends by reviewing indusrty information. If you have an existing business, look at last year's sales data. Reviewing the sections you've completed on products, customers, competitors and seasonality can assist in defining trends.

The steps required to develop your ***Sales Forecasting Worksheet*** are as follows. (Note that you can easily transfer this worksheet to a computer spreadsheet program--such as Lotus 1,2,3 or Microsoft Excel--and let the computer do the calculating.)

Step 1 *Using what you learned through research (and historic sales information, if you have it), estimate unit sales for the next 12 months.*

Define units carefully. Remember that almost all businesses have seasonal fluctuations. Your industry study may provide helpful information on seasonality. Review the ***Seasonality Worksheet*** from Session 4. Make copies of the ***Sales Forecasting Worksheet*** if you need to add more products. Check the assumptions used to make this forecast.

Step 2 *Insert the retail prices for each product.*

Price per Unit is your retail price. If you plan to adjust prices over the course of the year, reflect this change in the appropriate months.

Step 3 *Calculate monthly sales. Multiply the number of units you plan to sell in one month by the retail cost per unit. Enter the total, in dollars, in the* ***Total Sales*** *space under that month.*

Note: Repeat steps 1 through 3 for each product.

Step 4 *Calculate monthly sales totals. Add all the* ***Total Sales*** *within each month column and insert this figure in the* ***Total - All Product Sales*** *space at the bottom of each column.*

Step 5 *Calculate total yearly sales for each category. Add the* ***Total Sales*** *for each product across each row, and insert this figure in the column marked* ***Yearly Total.***

Step 6 *Check the accuracy of your figures. The sum of all the figures in the* ***Yearly Total*** *column should match the sum of all the monthly totals along the bottom of the worksheet.*

The figure in the lower right corner of the spreadsheet is the projected total yearly income from all products sold. Compare this number to the Annual Projected Sales Volume calculated in Session 4. If the two numbers are completely different, re-evaluate your work. You will be making some assumptions as you work on this forecast. Write your assumptions in the area provided below the worksheet.

Sales Forecasting Worksheet

	1 **Jan**	2 **Feb**	3 **Mar**	4 **Apr**	5 **May**	6 **Jun**	7 **Jul**	8 **Aug**	9 **Sep**	10 **Oct**	11 **Nov**	12 **Dec**	**Yearly Totals**
Product 1:													
Units Sold													
Price per Unit													
Total Sales													
Product 2:													
Units Sold													
Price per Unit													
Total Sales													
Product 3:													
Units Sold													
Price per Unit													
Total Sales													
Product 4:													
Units Sold													
Price per Unit													
Total Sales													
Total - All Product Sales													

Assumptions for Sales Forecasting Worksheet
Units sold each month is based on:
Seasonal fluctuation of units sold is based on:
Price per unit is based on:
Other information: Of the sales reported above:_____% will be cash sales _____% will be charge sales.
Terms of payment:
Additional comments:

Cost of Projected Product Units Sold

In the previous section, you projected monthly sales for each product. In this section, you will calculate the *direct cost* of each of these projected sales. For example, you might sell a product for $50.00 (the retail price), but your *cost* for this product might be $30.00 (including freight).

We are using the term "Cost of Projected Product Units Sold" so that you will specifically associate the direct costs of the product units with the units you forcasted selling on the ***Sales Forecasting Worksheet.***

This is not to be confused with the accounting term "Cost of Goods Sold," which, for a specific accounting period, refers to beginning inventory *plus* inventory purchases minus ending inventory. The purpose here is to project the monthly and annual direct cost of each product listed on the ***Sales Forecasting Worksheet.***

Note: Service businesses do not need to complete this section, and can go to the next section.

To complete this section, you will need to use data from your *Sales Forcasting Worksheet.*

Step 1 *Fill in the* ***Units Sold*** *line for your product categories. (Refer to your* ***Sales Forecasting Worksheet*** *.)*

Step 2 *Fill in your* ***Cost Per Unit*** *for each category. You are making some assumptions here. What are they and how much risk is involved? (Use the lines below the worksheet to list your assumption.)*

Step 3 *Calculate the* ***Total Cost*** *for each of the categories.* ***Multiply Units Sold*** *by* ***Cost per Unit*** *.*

Step 4 *Calculate the total* **Cost of Production Units Sold** *for each month. Add down the columns.*

Step 5 *Calculate the* ***Yearly Total of Units Sold*** *for each product. Add across the row.*

Step 6 *Check for accuracy. The 12 monthly totals added across for* ***All Products Total Cost*** *should match the* ***Yearly Total*** *column added down.*

If you have an existing business, you may be able to use your historic information to determine the relationship between last year's sales and Cost Of Product Units Sold by looking at the "Cost of Goods Sold" entry on your Income Statement. That term, from an accounting perspective, represents your beginning inventory *plus* your purchases during the year (including related costs like freight), *minus* your ending inventory. The result is the cost of the inventory you actually sold.

What percentage is the Cost of Goods Sold, relative to the Annual Sales on that same Income Statement? Compare that figure to the Cost of Projected Product Units Sold relative to your projected Sales Volume from this session, and see how closely they match.

Using the Cost of Goods Sold percentage as a tool to plan for purchases relating to sales works well if you have a large number of total products in your product group (where it would be very tedious to project the individual sales and cost projections for each item), and if you have accurate historic information or reliable industry information that produces an accurate Cost of Goods Sold percentage.

Cost of Projected Product Units Sold Worksheet

	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Totals
Product 1:													
Units Sold													
Cost per Unit													
Total Cost													
Product 2:													
Units Sold													
Cost per Unit													
Total Cost													
Product 3:													
Units Sold													
Cost per Unit													
Total Cost													
Product 4:													
Units Sold													
Cost per Unit													
Total Cost													
All Products Total Cost													

List assumptions for ***Cost of Projected Product Units Sold Worksheet.***

_____

_____

Step 7 *Calculate the relationship between total* ***Cost of Projected Product Units Sold*** *and* ***Total All Product Sales*** *(from the* ***Sales Forecasting Worksheet****).*

All Products Total Cost (Yearly Total) ÷ Total - All Product Sales (Yearly Total) = Total Projected Cost of Product Units Sold _____%

How does this percentage compare to your historic Cost of Goods Sold percentage?

_____

_____

How does this compare to your industry information about the average Cost of Goods Sold percentage?

_____

_____

Miscellaneous Expenses

This budget of miscellaneous expenses should include all expenses not listed on previous budget worksheets. Note that you already completed budgets for:

Salaries/ Wages & Benefits
Outside Services
Insurance
Advertising Budget
Occupancy Expenses
Cost of Projected Product Units Sold
Fixed Assets
Gtowth (Or Start-Up) Expenses
Existing Debt

Step 1 *Compile list of miscellaneous expense categories.*

The worksheet on the next page lists some common **m**iscellaneous expenses. If you currently run a business, you can review your chart of accounts or old financial statements to determine others that should be listed. New businesses can use a chart of typical account information for similar businesses, and add expense items as needed.

Step 2 *Complete monthly budget amounts for all* ***Miscellaneous Expenses*** *.*

Step 3 *List assumptions for* ***Miscellaneous Expenses*** *on the lines below the worksheet.*

As with other worksheets, it's essential to document your reasons for using the budget figures for each expense item. Write your assumptions on the corresponding numbered line for each item of miscellaneous expense.

Step 4 *Calculate total expenses for each month (add down the columns).*

Step 5 *Calculate yearly totals for each expense (add across the rows).*

Step 6 *Check for accuracy (column totals should equal row totals).*

Miscellaneous Expenses Worksheet

	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Total
Miscellaneous Expense Items													
1. Bad Debt													
2. Car/ Delivery													
3. Supplies													
4. Training													
5. Other:													
6													
7													
8													
9													
10													
Total													

Assumptions for Miscellaneous Expenses Worksheet	
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Exisisting Debt

This includes all existing debt belonging to the business. Whether the source is an owner, family member, relative, friend, bank, or supplier, the debt belongs on this schedule. **Note: This is for existing debt, not anticipated debt.**

Step 1 *List all existing debt obligations.*

Enter the description and source of the debt next to the numbers in the first section. (Principal and interest amounts should be separated and listed appropriately.)

Step 2 *Complete principal and interest payment amounts.*

For each debt obligation on which you are paying interest, enter the monthy principal and interest payments. This schedule should reflect when the payments are actually scheduled, not merely an equal amount in each month (if other than equal montly payment arrangements have been made). You may have to do some research on existing debt to separate principal and interest in your combined payment. Do these figures involve an assumption about future interest rates? Is it an accurate assumption? List any assumptions in the space provided below the worksheet.

Step 3 *Calculate total principal payments, total interest payments, and a grand total for each month* (add down the columns).

Step 4 *For each debt obligation, calculate yearly totals for principal and interest payments.*

Step 5 *Check for accuracy (column totals should equal row totals).*

Existing Debt Payment Worksheet

	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec
Principal Payments (list source of debt)												
1												
2												
3												
4												
5												
6												
Total Principal												
Interest Payments (list source of debt)												
1												
2												
3												
4												
5												
6												
Total Interest												
Total Principal + Interest Payments												

Assumptions for Existing Debt Payment Worksheet (principal + interest for each source of debt)	
1	
2	
3	
4	
5	
6	

Monthly Cash Flow Projections

A Cash Flow Projection is a budget and goal-setting tool that forecasts cash flowing into your business from sales, investments and borrowing, and cash flowing out of your business to pay expenses, buy equipment, and take care of other business expenditures. **This is one of the most critical financial tools you will learn** to use.

You will calculate your projected cash receipts and cash disbursements for a 12-month period, then for two more years following. If projected cash receipts are greater than cash disbursements, you will have a **positive cash flow**. If projected cash receipts are less than cash disbursements, you will have a **negative cash flow**, which is indicated by enclosing the number in parentheses.

If you are an existing business , with no specific growth or expansion plans incorporated in your assumptions the Cash Flow Projection will tell you if your business can support your current debt level. Is there enough cash flowing through the business to make the priciple payments, and support the level of expenses you have budgeted, without injecting additional borrowed funds into the business?

If you're planning for expansion or growth, or are starting a new business, the Cash Flow Projection will help you decide how much additional cash must be injected into the business during the first year, and at what point the business will allow you to meet budgeted expenses and make principal payments on existing and additional debt. It will also tell you when you may need additional cash during the year.

You should have already completed worksheets for most of the line items on this worksheet. If you still have work to do on previous worksheets, please complete them before continuing.

Step 1 *Make enlarged copies of the* ***Cash Flow Projection Worksheet*** *and the accompanying* ***Notes to Cash Flow Projection*** *--Or--transfer this worksheet to a computer spreadsheet program, and let the computer do the calculating.*

Using a computer is preferable, because you'll be adjusting the worksheet several times.

For your convenience, the worksheet was kept on one page, but because it summarizes so much information, it's too small to work with easily. If you aren't using a computer version, make enlarged copies so you have adequate room to write.

Step 2 *Enter your beginning cash balance for the first month.*

This amount should be taken from the ***Growth (or Start-up) Expense Worksheet.***
Note that if this amount was listed as "Additional Cash Required," it will be a negative number enclosed in parentheses.

*Step 3 Fill in the various categories for **Cash Receipts,** and total them for the first month only.*

The line labeled **Collection Accounts Receivable** should be considered carefully. It applies only if you are allowing customers to charge sales and pay for them over time. You must know what percentage of your sales are credit sales, and how many days it normally takes to collect them, to determine when the cash will flow into the business.

*Step 4 (Service Businesses--skip this step and go to Step 5.) Refer back to **All Products Total Cost** on the **Cost of Projected Product Units Sold Worksheet**. This represents the total merchandise purchases anticipated for the year. Write that total in the **Yearly Total** space for **Cash Purchases (Merchandise)**, then allocate the total to individual months, based on when the purchases will be made.*

Since merchandise usually must be bought before you can sell it, your next challenge is to determine when merchandise will be bought and paid for. Look at your monthly projected sales totals to see when you need the most merchandise and when you need the least. Based on your research, or the typical purchasing terms offered in your industry, decide when you will need to make your merchandise purchases. Then, divide the **Yearly Total for Cash Purchases (Merchandise)** among the individual months accordingly. Timing is very important to cash flow, so think hard about when you need to buy merchandise, based on when you anticipate selling it.

Last, total the 12 months across, and make sure the total equals the Yearly Total you started with.

*Step 5 Fill in the various categories for **Cash Disbursements** and total them for the first month only.*

Most of the items listed come from other worksheets. (Remember: Owner Withdrawals applies only if your business is a sole proprietorship or partnership. Owner salaries in corporations will be included in the Wages/Salaries & Benefits category.)

*Step 6 Calculate the **Net Cash Flow** for the first month (**Total Cash Receipts** minus **Total Cash Disbursements**).*

*Step 7 Enter **New Owner Withdrawal**, **New Owner Investment**, or **New Debt**.*

If Net Cash Flow is positive, and you are a sole proprietorship, you may want to take an owner withdrawal. The **New Owner Withdrawals** line is the place to indicate that decision. If the Net Cash Flow is negative, you have decisions to make regarding obtaining additional funds. Will the money come from you (Owner Investment) or from a lender (New Debt), or was there enough money in the Beginning Cash Balance to cover this month's negative balance?

*Step 8 Calculate **Adjusted Net Cash Flow** by adding or subtracting adjustment items from **Net Cash Flow**.*

Monthly Cash Flow Projections--Continued

Step 9 *Calculate the* ***Ending Cash Balance*** *for the first month. (Beginning Cash Balance, plus a positive Adjusted Net Cash Flow--OR--minus a negative Adjusted Cash Flow).*

Step 10 *Fill in the* ***Beginning Cash Balance*** *for the second month (which is the Ending Cash Balance for the first month).*

Step 11 *Repeat the first ten steps for each of the twelve months. Remember to complete one month at a time!*

Step 12 *Analyze your Cash Flow Projection.*

Remember, this is a management tool. Analyze how the cash is flowing through you business, and look at all the decisions you made that affect cash flow management. For example, look at your decision regarding collection of Accounts Receivable. Is cash being collected too slowly? What happens if you shorten the collection time? Your instuctor (or accountant) can point out other ways to improve your cash flow through similar decision adjustments.

Once again, your reader must be able to understand the source of the numbers used in the Cash Flow Projection. Use the "Notes to Cash Flow Projection" section to list your assumptions, or reference the worksheet and assumtions included in your Financial Plan--Section A. (*Example:* "See Fixed Assets Worksheet and Assumptions" in Section A). Lines are numbered to correspond to the lines on the *Cash Flow Projection Worksheet.*

Annual Cash Flow Projections--Years Two and Three

If you are using your plan to obtain money from traditional financing sources, you'll need to include Cash Flow Projections for a period of three years. Three-year projections are also highly recommended from a management standpoint. The first-year cash flow projection may not reflect a long enough time-frame to make decisions about your business's financial performance, particularly during a growth or start-up phase.

Lending institutions will usually accept the second and third year financial information in summarized annual form. But for your own benefit, you should continue working through the monthly projections.

Step 1 *Carry your ending cash balance from the Year One worksheet to the beginning cash balance of the second year. Then repeat Steps 1 through 11 for Year Two. Use the same method for Year Three. Be sure to mark the years clearly on the worksheet. Don't forget to adjust for anticipated price increases, inflation, etc*

Step 2 *Transfer the Yearly Total information from the monthly projection sheets to the Annual Year Two and Year Three summary sheets.*

Monthly Cash Flow Projection Worksheet

	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Total
Beginning Cash Balance (A)													
Cash Receipts													
Cash Sales													
Collect Accounts Receivable													
Sale of Fixed Assets													
Miscellaneous Income													
Total Cash Receipts (B)													
Cash Disbursements													
Cash Purchases (Merchandise)													
Pay Accounts Payable													
Salaries/Wages & Benefits													
Owner Withdrawals													
Non-Labor Expenses													
Outside Services													
Insurance													
Advertising													
Occupancy Expenses													
Misc. Expenses													
Fixed Assets													
Debt Payment - Old													
Total Cash Disbursements (C)													
Net Cash Flow (B-C)													
Adjustments to Net Cash Flow													
(+) New Debt													
(+) New Owner Investment													
(-) New Debt - Interest Payments													
(-) New Debt - Principal Payments													
(-) New Owner Withdrawals													
Adjusted Net Cash Flow (D)													
Ending Cash Balance (A+D)													

Monthly Cash Flow Projections--Continued

Cash Flow Projections--Years Two and Three--Summary Worksheet

Year Two	Yearly Total
Beginning Cash Balance (A)	
Cash Receipts	
Cash Sales	
Collect Accounts Receivable	
Sale of Fixed Assets	
Miscellaneous Income	
Total Cash Receipts (B)	
Cash Disbursements	
Cash Purchases (Merchandise)	
Pay Accounts Payable	
Salaries/ Wages and Benefits	
Owner Withdrawals	
Non-Labor Expenses	
Outside Services	
Insurance	
Advertising	
Occupancy Expenses	
Miscellaneous Expenses	
Purchase of Fixed Assets	
Debt Payment - Old	
Total Cash Disbursements (C)	
Net Cash Flow (B-C)	
Adjustments To Net Cash Flow	
(+) New Debt	
(+) New Owner Investment	
(-) New Debt - Interest Payments	
(-) New Debt - Principal Payments	
(-) New Owner Withdrawals	
Adjusted Net Cash Flow (D)	
Ending Cash Balance (A+D)	

Year Three	Yearly Total
Beginning Cash Balance (A)	
Cash Receipts	
Cash Sales	
Collect Accounts Receivable	
Sale of Fixed Assets	
Miscellaneous Income	
Total Cash Receipts (B)	
Cash Disbursements	
Cash Purchases (Merchandise)	
Pay Accounts Payable	
Salaries/ Wages and Benefits	
Owner Withdrawals	
Non-Labor Expenses	
Outside Services	
Insurance	
Advertising	
Occupancy Expenses	
Miscellaneous Expenses	
Purchase of Fixed Assets	
Debt Payment - Old	
Total Cash Disbursements (C)	
Net Cash Flow (B-C)	
Adjustments To Net Cash Flow	
(+) New Debt	
(+) New Owner Investment	
(-) New Debt - Interest Payments	
(-) New Debt - Principal Payments	
(-) New Owner Withdrawals	
Adjusted Net Cash Flow (D)	
Ending Cash Balance (A+D)	

Notes to Cash Flow Projection Worksheet

	Notes
1	
2	
3	
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Other Information:	

Note: Make copies of this worksheet to use with your Cash Flow Projection for Years Two and Three.

Monthly Projected Income Statement

You are now ready to assemble the data for your projected income statement. This statement will calculate your net profit or net loss (before income taxes) for each month.

Step 1 *Fill in the sales forecast for each month.*

You already estimated these figures on the *Sales Forecasting Worksheet.*

Step 2 *Fill in the* ***Cost of Product Units Sold*** *for each month.*

You already estimated these figures on the ***Cost of Product Units Sold Worksheet*** .

Step 3 *Calculate the* ***Gross Margin*** *for each month (* ***Sales*** *-* ***Cost of Product Units Sold*** *=* ***Gross Margin*** *).*

Step 4 *Fill in the total labor-related operating expenses (salaries, mandatory benefits, optional benefits).*

You estimated these figures on the ***Salaries/Wages & Benefits Worksheets*** , so copy them here. Be sure to verify that your assumptions are still valid.

Step 5 *Fill in the total non-labor-related operating expenses.*

You estimated these figures on your earlier worksheets and used them on your ***Cash Flow Projection Worksheet*** (Outside services, Insurance, Advertising, Occupancy Expenses, and Miscellaneous Expenses).

Step 6 *Calculate the expense labled* ***"Interest-New Debt"*** *(i.e., interest expense on new debt).*

Check the current lending rate for commercial loans, so you use a realistic interest rate.

Step 7 *Enter the Depreciation numbers from your* ***Fixed Assets Worksheet*** *, using the Total Fixed Assets monthly depreciation figures.*

Step 8 *Enter the interest on the existing debt.*

Again, you have this information on your prior worksheets.

Step 9 *Calculate yearly totals for all categories (add across the rows).*

Step 10 *Calculate the Total Operating Expenses for each month (add down the columns).*

Step 11 *Calculate the* ***Net Operating Profit*** *for each month (Gross Margin - Total Operating Expenses = Net Operating Profit). Also, calculate the yearly total. Deterimine the amount of other gains or losses, and then calculate the* ***Net Profit*** *or* ***Net Loss*** *before income taxes.*

Step 12 *For a sole proprietorship or partnership, enter the amount of* ***Owner Withdrawals*** *from your* ***Cash Flow Projection Worksheet*** .

Monthly Projected Income Statement Worksheet

	1 Jan	2 Feb	3 Mar	4 Apr	5 May	6 Jun	7 Jul	8 Aug	9 Sep	10 Oct	11 Nov	12 Dec	Yearly Totals
Sales													
Cost of Product Units Sold													
Gross Margin													
Operating Expenses													
Salaries/Wages & Benefits													
Non-Labor Expenses: Outside Services													
Insurance													
Advertising													
Occupancy Expenses													
Misc. Expenses													
Depreciation													
Interest - Old Debt													
Interest - New Debt													
Total Operating Expenses													
Net Operating Profit													
Other Gains/Losses													
Net Profit (or Loss) Before Income Taxes													
Owner Withdrawals (Sole Proprietorships and Partnerships)													

Projected Balance Sheet

Now you're ready to return to the Business Balance Sheet you started in Session 6. Your Projected Balance Sheet will reflect a picture of your business's financial condition at the end of your projected first year. You will be able to see how your decisions have affected business assets (what the business now owns at cost), the associated liabilities (what the business owes), and your equity in the assets.

Go back to the ***Balance Sheet Worksheet*** you started in Session 6. You will be filling in the right-hand side (labeled *Projected).* Fill in the "Prepared as of" date to reflect the end of the period for which you have prepared the projections. Abbreviated instructions for filling out the balance sheet are repeated below. (You will use the numbers from the projected worksheets you have prepared to this point.)

Step 1 *Fill in the amounts for each of the* ***Current Assets*** *, and calculate* ***Total Current Assets*** *.*

Step 2 *Fill in the amounts for each of the* ***Fixed Assets*** *(Land, Buildings, Equipment, and Other) less accumulated depreciation, and calculate* ***Total Fixed Assets*** *.*

Step 3 *Calculate* ***Total Assets*** *(Total Current Assets + Total Fixed Assets).*

Step 4 *Fill in the amounts for each liability, and calculate the required totals.*

Step 5 *Calculate the* ***Owner's Equity*** *(Total Assets - Total Liabilities).*

Step 6 *Fill in the amount of* ***Total Liabilities*** *+* ***Owner's Equity*** *. This amount must equal the amount for* ***Total Assets*** *.*

Step 7 *Calculate the liquidity ratios shown, and determine the amount of working capital your business has as of the date of this Projected Balance Sheet.*

Let's see how the measurement information has changed. Use the formulas below to calculate the liquidity information, and compare it to the first (current) Balance Sheet you prepared.

Liquidity ratios

Current Ratio:
Current assets ÷ Current liabilities = _____ Benchmark:_____

Quick ratio:
(*Current assets - Inventory) ÷ Current liabilities =*_____ Benchmark:_____

Working Capital:
*Current assets - Current liabilities =*_____ Target Minimum:_____

Personal Financial Statement

Financial Institutions and investors usually require a personal balance sheet, which provides an indication of your net worth. Lenders, in particular, look at this information to determine if you will be able to repay the loan should the business not perform as expected.

The worksheet on the next page will help you prepare a personal financial statement. You should prepare this statement *before* investing your personal assets in the business.

Step 1 *Prepare a list of all assets you own, whether these assets are paid for or not. The market value is the amount you would receive today if you sold the assets for cash.*

You can add an extra sheet of paper or "schedule" if you need additional space to list items in a particulary category. Number or letter the schedules, and reference the schedule number/letter on the worksheet (e.g., see sch.___)

Step 2 *Add the column to find Total Current Assets, Total Non-Current Assets, and Total Assets(A).*

Step 3 *Prepare a list of your liabilities (the money you owe)*

Step 4 *Add the column to find Total Current Liabilites, Total Non-Current Liabilities, and Total Liabilities (B).*

Step 5 *Calculate your net worth by the following method:*

Total assets (A) - Total liabilities (B) = Net worth

Personal Financial Statement Worksheet

Name:		**Prepared as of:**	
ASSETS		**LIABILITIES**	
Cash on hand (checking accounts)		Current personal / household bills	
Cash (in savings accounts)		Credit / charge cards (specify):	
Certificates of deposit			
Notes, accounts receivable			
Marketable securities (stocks, bonds)		Installment loans (short-term)	
Life insurance (cash value		Short - term notes, accounts payable	
Other current assets (specify):		Taxes due	
		Other current liabilities (specify):	
Total Current Assets		**Total Current Liabilities**	

Real estate - market value (see sch.___)		Real estate debts / mortgages (see sch.___)	
Vehicles - market value (see sch.___)		Other non-current liabilities (specify):	
Boats, motorcylces, RVs, trailers - market value (see sch.___)			
Individual retirement plans, etc.			
Major household items			
Other personal properties			
Other assets (specify):			
Total Non-Current Assets		**Total Non-Current Liabilities**	
(A) Total Assets (current + non-current)		**(B) Total Liabilities (current + non-current)**	
		(A - B) Net Worth:	

Statement of Owner's Equity

The Statement of Owner's Equity is the bridge between the Income Statement and the Balance Sheet. The Income Statement details the income-producing activities of your business and determines your net income. This net income is produced for the benefit of the owners, so the Statement of Owner's Equity\ adds it to amounts already owned by the owners. The newly adjusted amount of owner's equity appears on the Balance Sheet as a single line item.

The appearance of the Statement of Owner's Equity depends on the form of ownership of your business. Unincorporated businesses, sole proprietorships, and partnerships use the first format shown below. Incorporated businesses, corporations and limited liability companies use the second format.

Step 1 *Determine which format is appropriate for your business.*

Step 2 *Refer to your* ***Projected Balance Sheet Worksheet*** *,* ***Cash Flow Projection Worksheet*** *, and* ***Projected Income Statement Worksheet*** *. Fill in all the amounts except the final line.*

Step 3 *Calculate the amount for the final line (Ending Owner's Equity or Ending Retained Earnings).*

Statement of Owner's Equity Worksheet

Unincorporated Business Statement of Owner's Equity for the Year Ended _____

Beginning Owner's Equity	
+ New Investment by Owners	
+ Net Income of Business	
- Owners Withdrawls	
= Ending Owner's Equity	

Unincorporated Business Statement of Owner's Equity for the Year Ended _____

Beginning Retained Earnings	
+ Net Income	
- Dividends	
= End Retained Earnings	

Break-Even Analysis

The **break-even point (BEP)** is the point at which total sales for a time period cover the cost of product units sold and operating expenses. In other words, it's the volume of sales at which revenues and expenses are equal. If you sell less than this amount, you experience a net loss.

Step 1 *Enter **Total Sales**, **Total Product Unit Cost**, and **Variable Operating Expenses**.*

Refer to the appropriate worksheets for these figures. Also, calculate your Gross Margin and Contribution Margin.

Step 2 *Calculate the **Contribution Margin** as a percentage, using the formula on the worksheet.*

This tells you the percentage that each dollar of sales contributes towards fixed expenses. Enter the Contribution Margin percentage in a decimal format (i.e., 0.347, not 34.7%).

Step 3 *Enter your **Fixed Operating Expenses** (refer to previously completed worksheets).*

Fixed operating expenses remain constant when sales or production levels change. Examples inclued: rent, utilities, and insurance premiums.

Make sure you have included all of your planned operating expenses in the formulas up to this point. Step 1 asked for Product Unit Costs and Variable Costs, such as freight and labor directly related to production. Step 3 accounts for all of your other operating costs, so be sure to include operating costs from all of your worksheets.

Step 4 *Calculate the **BEP** dollar sales level using the formula provided.*

Step 5 *Calculate the **BEP** unit sales level by dividing BEP dollars by unit selling price. This is the level of unit sales you need to reach your BEP.*

Note: This calculation does not include loan principal payments, or owner draws if your business is a sole proprietorship or partnership. It also includes no provision for profits. How many more units will you have to sell to cover your debt payment, your owner's draw, and desired profit?

Step 6 *Reality Check: Is your break-even point realistic?*

If not, go back and make changes in the budgets to get the BEP to a more realistic level. Generally, you should start by examining expenses, since it's better to cut back than to assume you can increase sales. Look for expenses that are "wish list" items rather than necessities. Also, check Growth (or Start-Up) Expenses estimates, and check salaries and wages for yourself and employees to see if they are more than the business can support in a growth or start-up phase. Last, check your sales projections. Are they overly pessimistic?

Once you have revised your budgets, repeat the break-even calculation. If your BEP is now realistic, you are ready to move on to the next section of the workbook.

Break-Even Analysis Worksheet

Step 1			
	Total Sales		
	Cost of Product Units Sold	**(-)**	
	Gross Margin	**(=)**	
	Variable Operating Expenses	**(-)**	
	Contribution Margin	**(-)**	

Step 2 Calculate the Contribution Margin as a decimal percentage.
Contribution Margin ÷ Total Sales: _____ ÷ _____ = 0._____

Step 3 Determine your Fixed Operating Expenses.
Fixed Operarating Expenses = $_____

Step 4 Calculate the BEP Dollar Sales Level.
Fixed Operating Expenses ÷ Contribution Margin Percentage: $_____ ÷ 0._____ = $_____

Step 5 Calculate the BEP Unit Sales Level.
Dollars (from Step 4) $_____ ÷ Unit Selling Price_____ = _____units

Note: To calculate the BEP in Units of Sales, you must know the unit selling price, or the average unit selling price if you are grouping several similar items into your Total Sales number.

How many additional units will you have to sell to coveryour debt payment ($_____) and your owner's draw ($_____)? _____ additional units

How much profit do you want to make? $_____per_____. How may additional units will you need to sell to make your desired profit? _____additional units

Here's another way to look at the break-even formulas on a "per unit" basis (including sample numbers to help understand the calculations).

Unit selling price:	$100	Fixed Operating Expenses:	$24,000
- Cost of product unit sold:	50	÷ Unit Contribution Margin:	40
= Gross Margin per unit:	50	= Number of Units to BE:	600
- Variable Cost per unit:	10	x Unit Selling Price:	100
= Contribution Margin per unit:	$40	= Dollars to BE:	$60,000