

BUSINESS PLANNING FINANCIAL INFORMATION

Note: There are downloadable templates for each of the tables shown provided on the SCORE website. Visit <http://www.sanluisobispo.score.org> and click on Templates and Tools.

Determining the Cost of Opening Your Business

The following are some of the things you must consider before opening your business:

1. Down payment on purchase, or deposit on the lease.
2. Costs of remodeling the premises, fixtures, etc.
3. Purchase or lease of equipment.
4. Initial inventory purchase.
5. Telephone and utility installation and deposit fees.
6. Stationery and supply costs.
7. Taxes and licenses.
8. Professional fees (attorney, accountant, Realtor, etc.)
9. Advertising and promotional costs.
10. Travel expenses, dues, etc.

Determining Your Monthly Cost of Living

This will be used to determine what you will need as a minimum monthly draw from your business. The format on the following table can be utilized to develop your monthly cost of living.

Regular Monthly Payments	Subtotal	Total
Rent or house payments (including taxes)		
Car payments (including insurance)		
Appliance payments		
Loan payments		
Health plan premiums		
Life insurance premiums		
Other insurance		
Miscellaneous		
Subtotal		
Household Expense		
Telephone		
Utilities		
Water		
Miscellaneous		
Subtotal		
Personal Expenses		
Clothing, cleaning, laundry, shoe repair		
Prescription Drugs		
Medical and dental		
Education Dues		
Gifts & contributions		
Newspapers, magazines		
Automobile expenses		
Spending allowance		
Subtotal		-
Food Expenses		
Food at home		
Food away		
Subtotal		
Tax Expenses		
Federal & State		
Personal property		
Other taxes (except house)		
Subtotal		
TOTAL FOR THE MONTH		

Developing a Twelve Month Profit & Loss Forecast

The forecast should begin with the month you expect to open the business and cover the following twelve months. A suggested format is shown on the following page:

FORECAST OF TWELVE-MONTH PROFIT & LOSS STATEMENT (PRO FORMA)

	Past Year	EACH OF 12 MONTHS												Total
		1	2	3	4	5	6	7	8	9	10	11	12	
1. A. Sales (in dollars)														
B. Cost of sales														
C. Gross profit (1A less 1B)														
2. Controllable Expenses														
A. Salaries														
B. Payroll taxes														
C. Security														
D. Advertising														
E. Vehicle														
F. Dues and subscriptions														
G. Legal and accounting														
H. Office supplies														
I. Telephone														
J. Miscellaneous														
K. Total Controllable Expenses (2A through 2J)														
3. Fixed Expenses														
A. Depreciation														
B. Insurance														
C. Rent														
D. Taxes and licenses														
E. Total Fixed Expenses (3A through 3D)														
4. Total Expenses (2K plus 3E)														
5. Net Profit (Loss) Before Taxes (1C less 4)														

Notes to the Forecast of Profit and Loss:

1. Sales: Be sure to account for seasonality in monthly sales projections. If the business has more than one source of sales, you should separate them and list them accordingly (examine wholesale sales, retail sales, repair work).
2. Cost of Sales: For simplicity use cost of materials (goods to be sold). For some service businesses this is left blank.
3. Salaries: Include all salaries. Show in which months additional employees will be hired. For sole proprietorships and partnerships do not include yourself and/or your partner.
4. Controllable Expenses: These are just a guide. Your business may have some different expenses. Modify these expenses so that they represent the expenses of your business.
5. Fixed Expenses: Again, these are just a guide. You may want to talk to your accountant regarding the best method of depreciation for your business.

Developing a Twelve Month Cash Budget

By far the most critical aspect of your business is cash flow.

Cash flow is simply the movement of money in and out of your business over a certain period of time. Cash flow is determined by preparing a cash budget.

The cash budget can be more important than the forecasts of profits because it details the amount and timing of expected inflows and outflows of cash. Usually the level of profits during the initial stages of your business will not be sufficient to finance operating asset needs. Moreover, cash inflows do not match outflows on a short-term basis. The cash flow forecast will indicate these conditions and enable you to plan cash needs.

By understanding cash flow you will be able to answer one of the most important questions confronting you right now: how much money are you going to need to start your business?

A monthly cash budget will show you:

1. The amount of cash you start with (Total Cash) at the beginning of each month and is determined by totaling the amount of :

- A. Cash balance, beginning
- B. Cash in the bank and
- C. Cash in investments

(B and C indicate the amount of cash that you put into the business.)

2. The cash that comes in during each month is found by totaling the amount of:

- A. Cash sales
- B. Credit sales, payments received
- C. Income from investments
- D. Cash received from loans and
- E. Other cash income

Your business may make sales both on a cash and credit basis. It is important that you determine what proportions of the monthly sales are cash and credit. Of the credit sales, you must determine what amount can be collected within thirty days, sixty days, and ninety days. The credit sales payments should reflect when the credit sales will actually be received.

3. Add the cash that you start with (cash) to the cash that comes in.

4. The cash that goes out during each month (expenses) is found by adding up the amount of:

- A. Cash paid for Inventory or new material
- B. Wages (including owner's cash draw)
- C. Taxes
- D. Equipment expenses
- E. Loan repayment
- F. Other cash expenses

The "inventory or new material" refers to the cost of setting up the inventory and the cost of goods that you are going to sell.

"Wages" refers to the amount of money that is drawn out of the business by the sole proprietor or partners.

"Taxes" refers to a reserve for income taxes based on projected profit (the structure of the business will influence how income taxes will be handled).

"Equipment expenses" refers to the cost of initial equipment, furniture, and fixtures of the business. If any additional equipment is to be added in this category, indicate the month it will be paid for. If any additional expenses are expected, they should be

reflected in the appropriate months.

"Loan repayment" refers to the principal amount of any loans.

"Other cash expenditures" refers to other items paid for that are not covered above, e.g., leasehold improvements, outside services, supplies, repairs and maintenance, advertising, insurance, loan interest, etc.

5. Total the cash that goes out (expenses)
6. Total cash and income minus total expenses is how much cash is left over at the end of the month (cash flow excess)
7. Total the amount of cash that has accumulated from the current month and the previous month (cash flow cumulative). This amount is carried forward to become the "cash balance beginning" for the successive month.

There are many forms of the Cash Flow Projection Chart (shown below) however, they solicit the same kind of information, i.e., how much cash is coming into the business and how much cash is being paid out. A forecast like this is also instrumental in giving the business owner a good feel for how much cash he/she must have—or a line of credit from a lender—when he starts so that he/she will not be undercapitalized.

FORECAST OF TWELVE MONTH CASH FLOW PRO FORMA

	Start Up	EACH OF 12 MONTHS												Annual Cash Flow
		1	2	3	4	5	6	7	8	9	10	11	12	
1. Cash beginning of month.														
A. Cash balance beginning														
B. Cash in bank														
C. Cash investments														
D. Total Cash 1A + B + C.														
2. Plus Income (during month)														
A. Cash Sales														
B. Credit Sales Payments														
C. Investment Income														
D. Loans proceeds from.														
E. Other Cash Income														
F. Total Income (2A+B+C+D+E)														
3. Total Cash & Income (1D - 2F)														
4. Expenses during month.														
A. Inventory														
B. Wages (including owner)														
C. Taxes														
D. Equipment Expenses														
E. Overhead, Selling & Transportation														
F. Loss Repayment														
G. Other Cash Expenses														
5. Total Expenses (4A+B+C+D+E+F+G)														
6. Cash Flow Excess (end of month) (3-5)														
7. Cash Flow Cumulative (current month plus prior month)														

Working Capital Format

Information from your personal monthly budget is now combined to determine how much

working capital you need. Below is a format that will assist you.

OWNER'S LIVING EXPENSES	
From the last paycheck to opening day	
Moving Expenses	
Three-month cost of living budget	
FIXED BUSINESS EXPENSES	
(deposits, prepayments, licenses)	
Three months' business rent	
Telephone and utilities deposits	
Sales tax deposits	
Business license	
Insurance premiums	
LEASEHOLD IMPROVEMENTS	
Remodeling and decorating	
Fixtures and equipment	
Installation labor	
Signs outside/inside	
INVENTORY	
Service	
Delivery equipment	
Supplies	
Merchandise	
TOTAL OPERATING EXPENSES FOR 3 MONTHS	
(less depreciation expense)	
RESERVES TO CARRY ACCOUNTS RECEIVABLE	
PETTY CASH, CHANGE	
TOTAL WORKING CAPITAL	\$

Balance Sheet for Years Ending 2____ and 2____

The next task is to develop a projected (pro forma) balance sheet listing what the business owns, minus what it owes and its net worth at a given point in time. Below is a sample format.

	YEAR 1	YEAR 2
CURRENT ASSETS		
Cash		
Accounts Receivable		
Inventory		
FIXED ASSETS		
Real Estate		
Fixtures & Equipment		
Vehicles		
OTHER ASSETS		
License		
Goodwill		
TOTAL ASSETS		
CURRENT LIABILITIES		
Notes Payable (due within 1 year)		
Accounts Payable		
Accrued Expenses		
Taxes Owed		
LONG-TERM DEBT		
Notes Payable		
Other		
TOTAL LIABILITIES		
NET WORTH (ASSETS minus LIABILITIES)		
TOTAL LIABILITIES plus NET WORTH should equal TOTAL ASSETS		