

Develop Basic Financial Budgets and Projections

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**The Atlanta Urban League
The Entrepreneur Center (TEC)
Business Development Workshop Series**

PRESENTATION TOPICS

- ▶ This presentation will cover the basics of developing the following financial statements for the business plan.
 - For a New Business
 - Projected Startup Budget
 - Projected Balance Sheet (1 year forward).
 - Projected Income Statement (1 year forward).
 - Projected Cash Flow Statement (12 months forward).



START-UP COST BUDGET



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STARTUP COST BUDGET

- ▶ What will it cost to start and run your business for at least the next two years.
- ▶ There will be fixed cost or cost that will pretty much stay the same (i.e. rent, utilities, equipment, insurance, etc).
- ▶ There also will be variable cost that will change as your business changes.
- ▶ For example if you are starting a home painting business you might create a cost sheet for how much it will cost to paint a average 3 bedroom house. (I.e. paint, labor, supplies).



STARTUP COST

- ▶ To determine your startup costs, you must identify all the expenses your business will incur during its startup phase.
- ▶ Some of these expenses will be one-time costs, such as the fee for incorporating your business and the price of a sign for your building.
- ▶ Some expenses will be ongoing, such as the cost of utilities, inventory, insurance, etc.



STARTUP COST

- ▶ Decide whether they are essential or optional. A realistic startup budget should only include those elements that are necessary to start the business.
- ▶ These essential expenses can then be divided into two separate categories: fixed (overhead) expenses and variable (related to business sales) expenses.
 - Fixed expenses will include figures like the monthly rent, utilities, and administrative and insurance costs.
 - Variable expenses will include inventory, shipping and packaging costs, sales commissions, and other costs associated with the direct sale of a product or service.



STARTUP BUDGET

- ▶ Enter the est. cost
- ▶ Use other plans
- ▶ Research
- ▶ Research
- ▶ Research

Startup Budget

June 8, 2010

Cash Needed
to Start

Monthly Costs

Salary of owner-manager	\$6,000
All other salaries and wages	7,000
Rent	1,000
Advertising	2,000
Delivery expense	400
Supplies	500
Telephone	500
Other utilities	500
Insurance	600
Taxes, including social security	1,000
Interest	500
Maintenance	300
Legal and other professional fees	3,000
Miscellaneous	500
Subtotal	\$23,800

One-Time Costs

Fixtures and Equipment	\$10,000
Decorating and remodeling	1,000
Installation charges	500
Starting inventory	5,000
Deposits with public utilities	1,000
Legal and other professional fees	500
Licenses and permits	500
Advertising and promotion for opening	500
Cash	750
Other	200
Subtotal	\$19,950

Totals **\$43,750**



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STARTUP COST TEMPLATE



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CASH FLOW PROJECTIONS



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CASH FLOW

- ▶ Your cash flow is the single most important aspect of your business.
- ▶ Understanding cash flow focuses on the cash going in and out of your business:
 1. How much money did the business receive from sales?
 2. Accounts payable are all the expenses that the business has to pay.
 3. Accounts receivable is all the money owed to you from customers.



CASH FLOW PROBLEMS

1. Too many receivables (people who owe you money). Banks will look at receivables over 90 days as a bad debt.
2. Too much inventory (cash tied up in inventory for too long). Inventory should be turned over at least 5 times a year to maximize profit.
3. High overhead costs. Always be aware of all the money being spent and consider ways to reduce costs.
4. Always know where the money is going.



CASH FLOW TEMPLATE



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BALANCE SHEET



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BALANCE SHEET

- ▶ The balance sheet is a snapshot of the company's financial position at an instant in time.
- ▶ It shows what the company owns (assets) and what it owes (liabilities and net worth).
- ▶ The "bottom line" of a balance sheet must always balance (assets = liabilities + net worth)



LIABILITIES

- ▶ Liabilities and net worth on the balance sheet represent the company's sources of funds.
- ▶ Liabilities represent a company's obligations to creditors while net worth represents the owner's investment in the company.
- ▶ Creditors and owners are "investors" in the company with the only difference being the degree of nervousness and the timeframe in which they expect



LIABILITIES

▶ Liabilities and Net Worth

- Liabilities and Net Worth are sources of cash listed in descending order from the most nervous creditors and soonest to mature obligations (current liabilities), to the least nervous and never due obligations (net worth).

▶ Current Liabilities

- Current liabilities are those obligations that will mature and must be paid within 12 months.
- These are liabilities that can create a company's insolvency if cash is inadequate.

▶ Non-current Liabilities

- Non-current liabilities are those obligations that will not become due and payable in the coming year.



CURRENT LIABILITIES

- ▶ Current liabilities consist of the following obligation accounts:
 - Accounts Payable (A/P)
 - Accrued Expenses
 - Notes Payable (Bank and Other)
 - Current Portion of Long-term Debt



CURRENT LIABILITIES

- ▶ Accounts Payable (A/P)

- Accounts Payable are obligation due to trade suppliers who have provided inventory or goods and services used in operating the business.

- ▶ Accrued Expenses

- Accrued Expenses are obligations owed but not billed such as wages and payroll taxes, or obligations accruing, but not yet due, such as interest on a loan.

- ▶ Notes Payable

- Notes payable are obligations in the form of promissory notes with short-term maturity dates of less than 12 months.



ASSETS

- ▶ Assets represent the company's use of funds.
- ▶ The company uses cash or other funds provided by the creditor/investor to acquire assets.
- ▶ Assets include all the things of value that are owned or due to the business.



ASSETS

- ▶ Anything of value that is owned or due to the business is included under the Asset section of the Balance Sheet.
- ▶ Assets are shown at net book or net realizable value (more on this later), but appreciated values are not generally considered.



CURRENT ASSETS

- ▶ Current assets mature in less than one year. They are the sum of:
 - Cash
 - Accounts Receivable (A/R)
 - Inventory
 - Notes Receivable (N/R)
 - Other Current Assets



CURRENT ASSETS

▶ Cash

- Cash pays bills and obligations. Inventory, receivables, land, building, machinery and equipment do not pay obligations even though they can be sold for cash and then used to pay bills.

▶ Accounts Receivable (A/R)

- Accounts receivable are dollars due from customers

▶ Inventory

- Inventory consists of the goods and materials a company purchases to resell at a profit. In the process, sales and receivables are generated.

▶ Notes Receivable (N/R)

- N/R is a receivable due the company, in the form of a promissory note, arising because the company made a loan.

▶ Other Current Assets

- Other current assets consist of prepaid expenses and other miscellaneous and current assets.



FIXED ASSETS

- ▶ Fixed assets represent the use of cash to purchase physical assets whose life exceeds one year, such as:
 - Land
 - Building
 - Machinery and Equipment
 - Furniture and Fixtures
 - Leasehold Improvements
- ▶ Other Assets
 - Other assets consist of miscellaneous accounts, such as deposits and long-term notes receivable from third parties. They are turned into cash when the asset is sold or when the note is repaid.



EQUITY

- ▶ Equity is represented by total assets minus total liabilities. Equity or Net Worth is the most patient and last to mature source of funds. It represents the owners' share in the financing of all the assets.



BALANCE SHEET TEMPLATE



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INCOME STATEMENT



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INCOME STATEMENT

- ▶ The income statement, also known as the profit and loss statement, shows all income and expense accounts over a period of time—that is, it shows how profitable the business is.
- ▶ This financial statement shows how much money the company will make after all expenses are accounted for.
- ▶ An income statement does not reveal hidden problems, like insufficient cash flow.
- ▶ Income statements are read from top to bottom and represent earnings and expenses over a period of time.



INCOME STATEMENT TEMPLATE



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TOOLS AND RESOURCES

- ▶ SBA.GOV
- ▶ BPLANS.COM
- ▶ SCORE.ORG



SUMMARY

- ▶ **This section in the business plan should include:**
 - For a New Business
 - Estimate of start-up costs.
 - Projected balance sheet (1 year forward).
 - Projected income statement (1 year forward).
 - Projected cash flow statement (12 months forward).
 - For an Existing Business
 - Balance sheets (last 3 years).
 - Income statements (last 3 years).
 - Cash flow statement (12 months).
 - If Applying for a Loan (in addition to the above)
 - Current personal financial statement on each principal.
 - Federal tax return for prior year.

