

# Developing Financial Projections for Your New Small Business

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SMALL BUSINESS ESSENTIALS WEBINAR SERIES

# About SCORE

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As a resource partner of the SBA, we help small businesses by:



Providing free business advice and mentoring



Offering low or no-cost business training



Sharing free business templates and resources

# SCORE's Small Business Essentials Webinar Series

Small Business Startup Task	Planning Activity	Webinar Name	Mentor Meeting
<ul style="list-style-type: none"> <li>Understand the importance of business planning and the planning process.</li> <li>Create an "Value Proposition."</li> <li>Create a "Lean Canvas."</li> </ul>	Basic Planning	<b>Creating a Quick Business Plan</b>	Mentor Review & Feedback
<ul style="list-style-type: none"> <li>Choose your business entity.</li> <li>Make state/local business license applications.</li> <li>Determine your business insurance needs.</li> </ul>	Creating a Business Structure	<b>Setting Up a New Business Entity</b>	Mentor Review & Feedback
<ul style="list-style-type: none"> <li>Define your target market. (Part 1)</li> <li>Create your product or service descriptions. (Part 1)</li> <li>Decide on your pricing strategy. (Part 1)</li> <li>Write your marketing message: value prop, benefits &amp; features. (Part 1)</li> <li>Create a promotional plan for your business. (Part 2)</li> </ul>	Creating a Marketing Plan	<b>Marketing Part 1</b>  <b>Marketing Part 2</b>	<b>Today's Webinar</b> Mentor Review & Feedback
<ul style="list-style-type: none"> <li>Calculate your startup costs.</li> <li>Project your sales for your first year of business.</li> <li>Create a projected P/L statement for the first year in business.</li> </ul>	Creating a Financial Plan	<b>Developing Financial Projections</b>	Mentor Review & Feedback
<ul style="list-style-type: none"> <li>Connect with your fellow entrepreneurs</li> <li>Introduce your business</li> <li>Start achieving your networking goals</li> <li>Walk away with new contacts</li> </ul>	Network	<b>Networking: Building Connections for Business Success</b>	Mentor Review & Feedback

- Webinars are focused on helping you complete the SB tasks; Mentoring provides advice and guidance to make the most out of the SB tasks
- Request a SCORE mentor at [www.score.org/find-mentor](http://www.score.org/find-mentor)

# Your Presenter

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**Matt Evans, CPA, CMA, CFM**, is a retired professional with 25+ years' experience as an accountant, controller, business analyst and project manager. As a SCORE Mentor, Matt provides practical advice to small businesses in areas such as strategic planning, product development, marketing, and financial planning.

# Webinar Objectives

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- Develop an understanding of the three basic financial statements
  1. Income Statement
  2. Balance Sheet
  3. Cash Flow Statement
- Learn how to develop financial projections – Four key steps:
  1. Total Required Investment (Startup Costs) to get to Breakeven
  2. Project sales (revenues), cost of goods sold and operating expenses to arrive at Profit or Loss on a monthly basis
  3. Project the Balance Sheet (assets, liabilities and equity) at Year End
  4. Develop cash flow projections on a monthly basis

# “Profiting” from the Webinar

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- Ask questions as we go along using the Q&A icon!
- Use these resources\*
  - PDF of the workshop presentation
  - Do your homework using the financial template – a comprehensive workbook for developing a financial plan (link is provided at end of slide deck)
- We will not have time to fully resolve every issue so consider getting a mentor!

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\*Links to workshop materials are posted on the webinar event page. A link to this web page was included in your registration confirmation email.

# Financial Planning

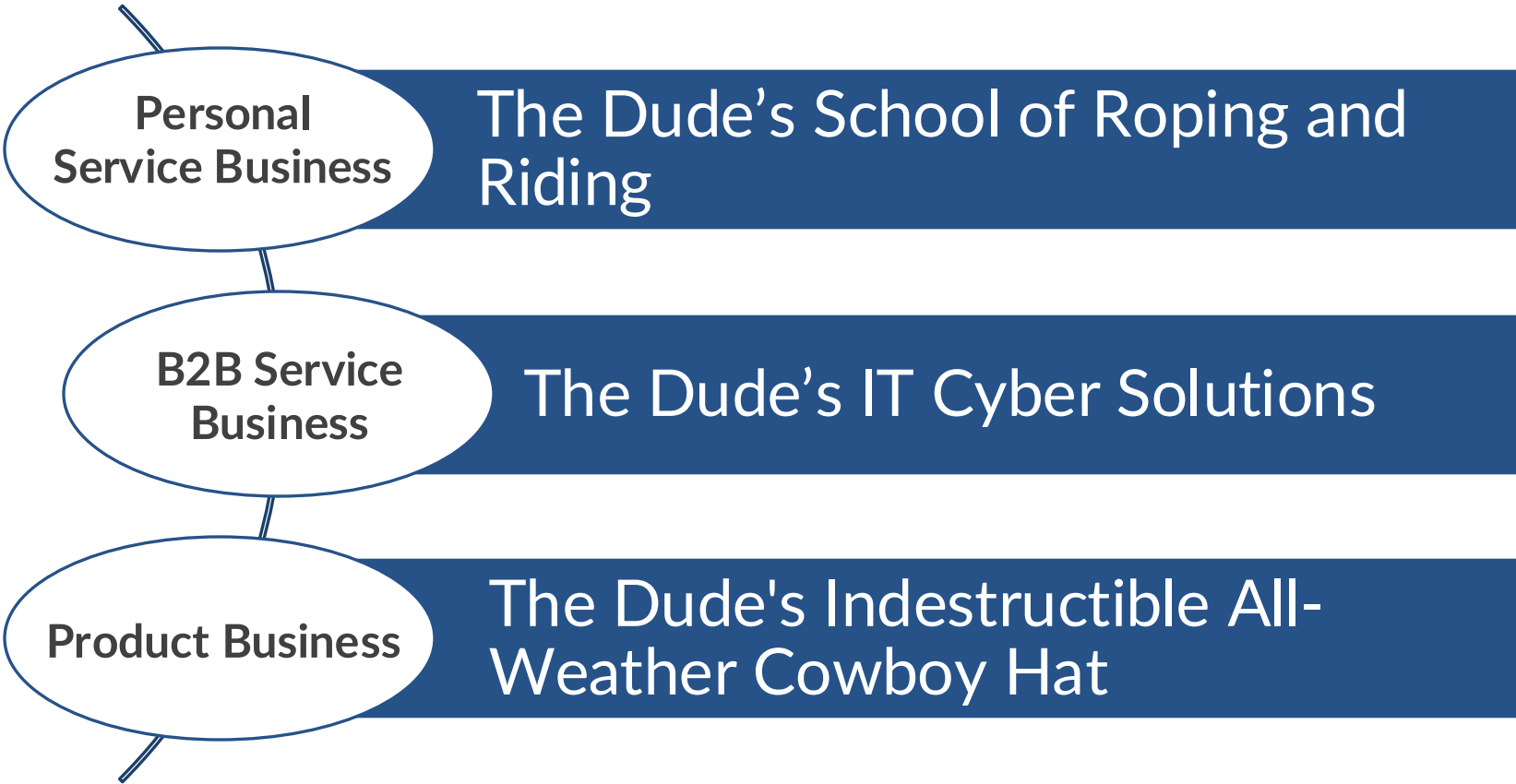
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- Become financially smart in running the business and understand basic terminology. *Example: Pro-Forma = Projected = Forecasted*
- Know what it takes to fully fund the business to capture customers
- Enables the business owner to effectively allocate funds
- Serves as a benchmark to gauge financial performance and make timely adjustments. *Example: Sufficient Gross Margin to become Profitable*
- A well documented financial plan is necessary to attract potential lenders and/or equity investors. *Example: Bank needs 3 years of financial projections to approve your bank loan*

# Meet “The Dude!”



We will use fictitious companies to illustrate how typical clients make decisions and create plans.



# Agenda

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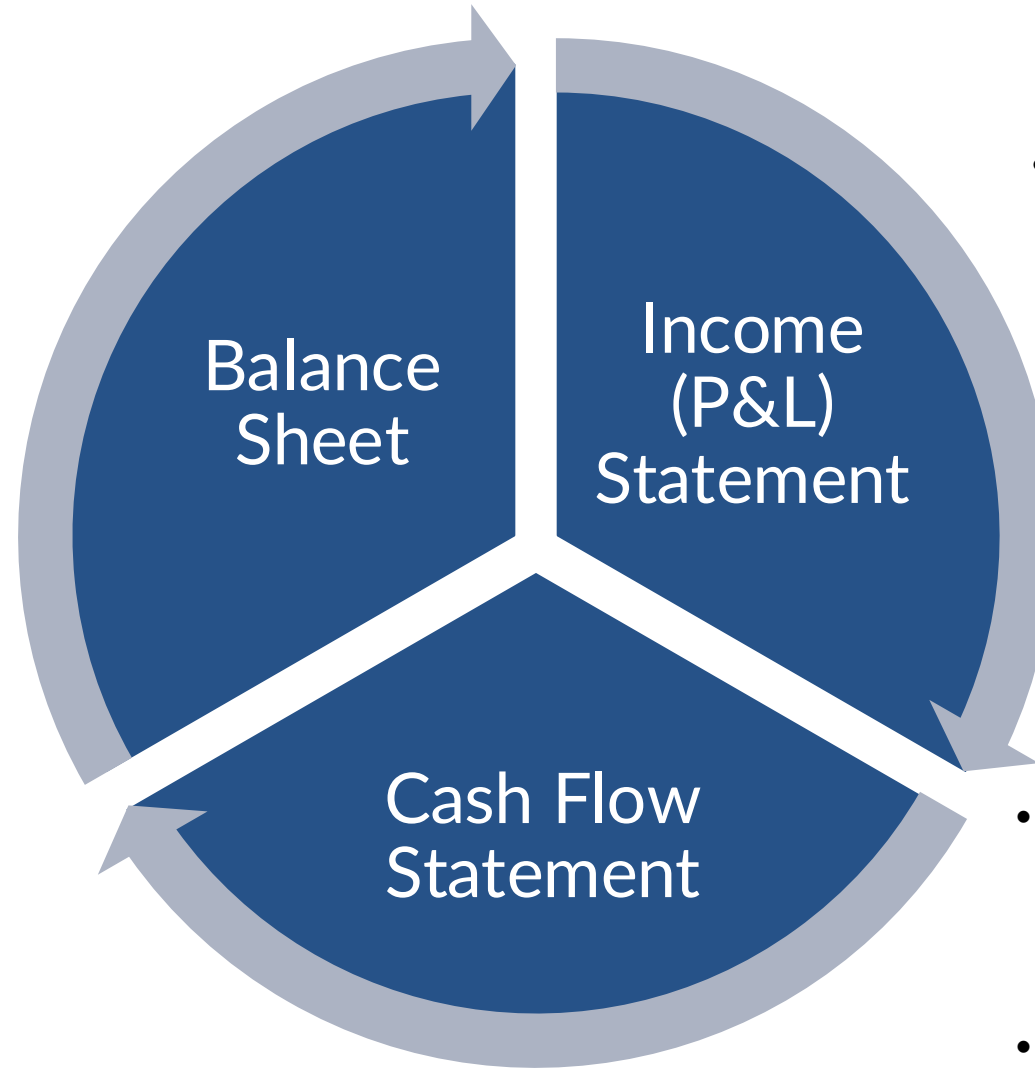
1. Introduction
- 2. The Three Basic Financial Statements**
3. Projecting Your Startup Costs
4. Projecting Revenue
5. Projecting Expenses & Net Profit
6. Projecting the Balance Sheet
7. Projecting Cash Flow
8. Closing

# The Three Basic Financial Statements

- The **Balance Sheet** gives the Financial condition of your business at a point in time
- And shows what resources (**assets**) you own and how they were financed (**liabilities** and **equity**)

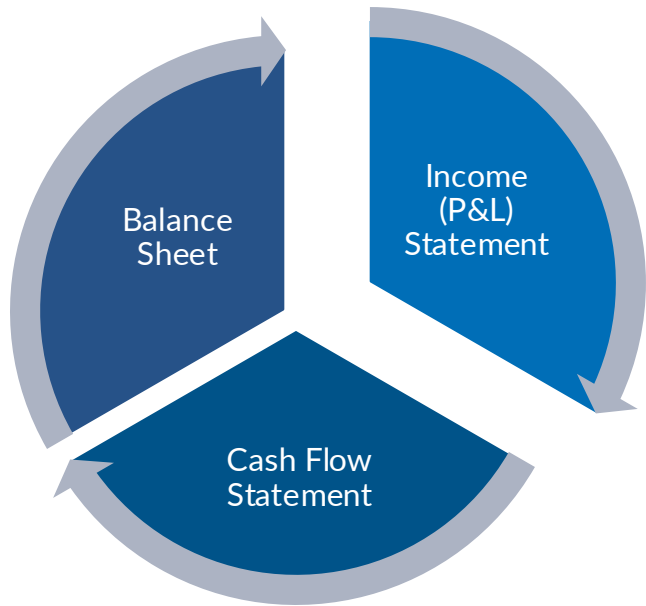
Every business has five types of financial transactions:

1. **Assets**
2. **Liabilities**
3. **Equity**
4. **Revenues**
5. **Expenses**



- An **Income (or Profit Loss) Statement** shows your **revenues**, **expenses** and profit or loss in a given period (month, quarter, year)
- A **Cash Flow Statement** shows your receipts (sources) and payments (uses) of cash in a given period
- Prepared on a cash basis

# Income (P&L) Statement Fundamentals

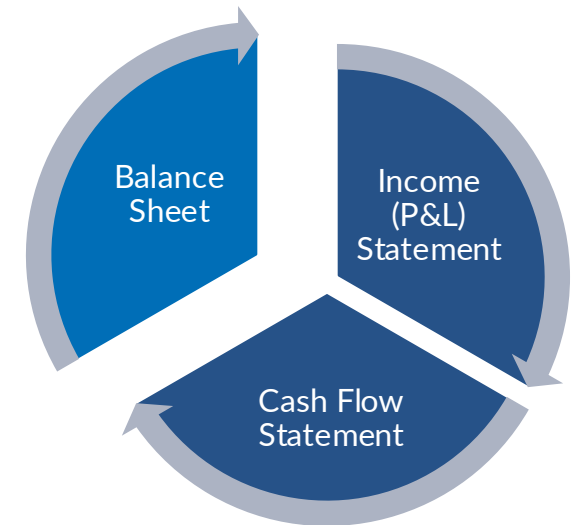


- A P&L (Profit and Loss) Statement is a financial statement that:
  - Summarizes the revenues, costs and expenses incurred during a period of time (generally a month, quarter or year)
  - Calculates the profit or loss during the period.
- Balances accumulate over a reporting period (such as calendar year). Close out to the Balance Sheet.

**Key Point:** Start your financial plan with the Projected Income Statement – How much can you expect to sell at what price and what expenses are expected month to month to support on-going sales to customers

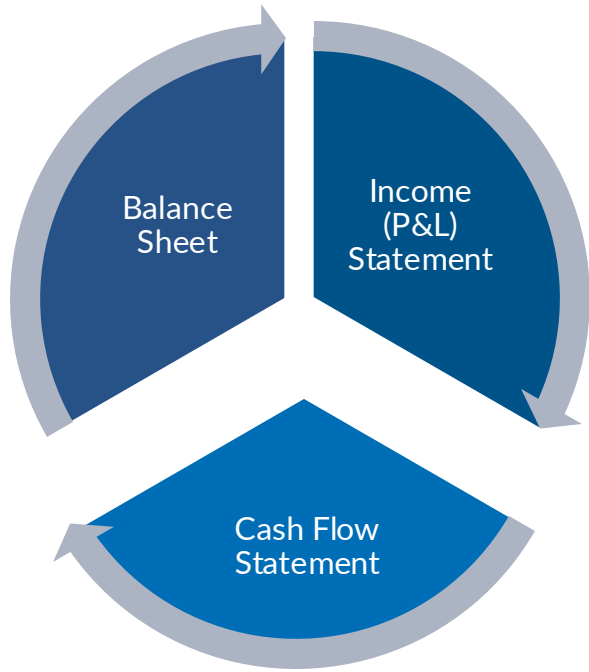
# Balance Sheet Fundamentals

- Financial condition of the business at a point in time
- Shows what resources (assets) the firm owns and how it was financed either through liabilities or equity as of a *cut off date*
- Three Main Components
  - Assets (current and long term)
  - Liabilities (current and long term)
  - Owner's Equity
- Must balance!  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$



**Key Point:** Once you know your revenue and expense projections, how much must you invest (assets) to support the sales projections and how will you finance this investment (liabilities and equity)

# Cash Flow Statement Fundamentals



- A Cash Flow Statement shows your receipts (sources) and payments (uses) of cash in a given period.
- Broken out month to month, showing beginning and ending cash balances similar to your bank statement

**Key Point:** Once you know your revenues, expenses, assets, liabilities and equity, you can then prepare a projected cash flow statement showing how all five financial types of transactions flow in and out of the business checking account.

# Agenda

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1. Introduction
2. The Three Basic Financial Statements ← **QUESTIONS?**
3. **Determining Your Startup Costs**
4. Projecting Revenue
5. Projecting Expenses & Net Profit
6. Projecting the Balance Sheet
7. Projecting Cash Flow
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# Total Project Start-up Costs

- All expenses (one time and recurring) to fully stand-up the business and attract customers
- Once you know your start-up costs, then decide how will you finance the total investment:
  - **Debt financing** (i.e., you owe someone an amount you will need to pay back in the future such as a Bank Loan)
  - **Equity financing** (i.e., your own money + other sources that involve ownership in the business such as partners, angel investors, venture capitalist)



**Two Critical Questions:** How much total investment is required to get to first customer and where will I get the money?

# Examples of Startup Costs to Consider

- Some examples of one time and month to month expenses:
  - Lease payments month to month.
  - Build-out costs of facilities (one time investment).
  - R&D or other development cost prior to opening.
  - Purchase of equipment to run business (one time investment).
  - Initial inventory of products to sell.
  - Monthly marketing and selling expenses.
  - Website development and monthly web hosting fees
  - Licenses (annual) and Insurance (monthly, semi-annual or annual)
  - Outsource labor costs, both one time and month to month,



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# Let's Take a Look at the Dude's Start Up Costs ...



## **The Dude's School of Riding & Roping**

### **Startup Costs:**

- Licenses
  - Insurance
  - Mileage and Transportation
  - Marketing (flyers, truck decal, business cards)
- Total = \$1,500

## **The Dude's Indestructible, All-Weather Cowboy Hat**

### **Startup Costs:**

- Licenses
  - Rent
  - Office Equipment
  - Website
  - Startup Inventory
  - Insurance
  - Miscellaneous
- Total = \$18,000

## **The Dude's IT Cyber Solutions**

### **Startup Costs:**

- Licenses
  - Insurance
  - Website
  - Professional society dues
  - Miscellaneous (business cards, etc.)
- Total = \$2,000

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3. Projecting Your Startup Costs ← **QUESTIONS?**
4. **Projecting Revenue**
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# Projecting Revenue for a One Person Service Business

The most common approach is to calculate your maximum customer sessions per year and project the number you will deliver (utilization).

## Key Terms:

- **Billable hours** are hours you charge your clients for services.
- **Non-billable hours** include:
  - Preparation time, travel time between customers
  - Vacations, holidays, bookkeeping, continuing education
  - Time spent promoting your business and selling your service!
  - Always plan for some % of non-billable hours in your business.
- A **Session** is a single customer interaction (visit) that includes one or more hours of billable time.
  - e.g. 1-hour massage, 2-hour math lesson, 4-hour roof repair.
  - The maximum number of sessions you could do is limited by how many billable hours you have available.
- **Utilization** projects what % of possible sessions you will be able to actually deliver to customers

# Projecting Maximum Number of Sessions



**The Dude's School of Riding & Roping**

## Projecting Your Maximum Number of Sessions:

- Determine typical “Total Session Time” (number of hours)
- Determine the number sessions possible in a day, week, year.

## Example:

- The Dude offers one on one training on your horse at your stable.
- He projects his sales based on the number of sessions he plans to conduct.
- Training sessions are typically 2 hours long, plus he allows for an hour of travel time to/from each client (non-billable).

Projecting Maximum Sessions	
Training Session Length (billable hours)	2hr
Travel Time (non-billable hours)	1hr
Total Session Time (hours)	3hr
Maximum Sessions per Day (9am-6pm)	3
Maximum Sessions per Week (@5 days/week)	15
Billable Days per Year (@48 weeks/yr)	240
Maximum Sessions per Year (3*240)	720

48 weeks/year is a typical rule-of-thumb for ‘workable’ weeks to allow for vacation, sick, holiday, and other non-billable time

For Full Time Contract Work, you can use 1,880 or 1,920 hours out of a total of 2,080 hours for payroll during the year

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# Projecting Sales



**The Dude's School of  
Riding & Roping**

## Projecting Sales:

- Total sales (Maximum sales) assumes you can sell, and work, every possible session.
- Utilization projects what % of sessions are projected to be sold and delivered.
- 70-80% utilization is typical for his industry based on research.
- This is your **Basis of Estimate** for projected Sales Revenues in Year 1 of your Financial Plan



## Example:

- The Dude charges \$200 per session for a 2-hour session.
- He assumes that he will be able to sell about 70% of total possible training sessions
  - i.e., 10-11 sessions/week versus max of 15 sessions per week.

Projecting Sales		
Sales		
Sessions per day (5 days a week)	3	
Billable days per year (48 weeks)	240	
Maximum Session per Year	720	
Fee per Session	\$200	
<b>Total Sales (Maximum)</b>		<b>\$144,000</b>
<b>Utilization</b>	<b>70%</b>	
<b>Total Sales (Net Projected)</b>		<b>\$100,800</b>

# The Dude's IT Cyber Solutions Income Goal



**The Dude's IT Cyber Solutions**

Annual Income Goal Analysis	
Personal Income (Cash) Goal after Taxes:	\$65,000
Federal Self Employment Taxes (15.3%)	\$18,000
Federal & State Income Tax (16% + 4%)	\$22,000
Reinvest and Support the Business	\$ 5,000
<b>Total Profit Goal for Business – Year 1</b>	<b>\$110,000</b>

The Dude needs to make at least \$110K in profits to support his personal life style and have household take home pay of \$ 65K

**Key Point:** The entire profits from your business is **not** fully available to support the business owner. You have to take into account both taxes and a reserve of funds to support the business going forward. **Set aside at least 25% of profits to cover taxes!**

# How can the Dude Increase Profits?



**The Dude's IT Cyber Solutions**

Utilization (Billability %)	70%	75%	80%
Average Hours Sold per Month	121	130	139
Hourly Rate	\$200	\$200	\$200
Revenue / Month	\$24,200	\$26,000	\$27,800
Annual Revenue	\$290,400	\$312,000	\$333,600
Expenses / Month	\$14,500	\$14,500	\$14,500
Annual Expenses	\$174,000	\$174,000	\$174,000
Profit or (Loss)	<b>\$116,400</b>	<b>\$138,000</b>	<b>\$159,600</b>

**If you want to take more money out of the business, then you need to increase Profits!**

**Key Point:** You have only **three levers** to pull on to get Profits up: 1) Sell More Hours or Units (Higher Utilization); 2) Raise your pricing (such as \$ 220 per hour); or 3) Lower your Operating Expenses of \$ 14,500 per month

# The Dude's Cowboy Hat: Sales Projections



**The Dude's Indestructible,  
All-Weather Cowboy Hat**

- Retail price: \$40.00 with free shipping.
- The Dude will have an active social media campaign through the year, and a sales promotion in April
- Based on his research of the competition, he believes he will be able to ramp up to 500 hats sold in month 6.

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Yearly
<b>Unit Sales:</b>	50	100	150	300	400	500	500	500	600	500	1,000	750	5,350
<b>Revenue: (\$40/hat)</b>	\$2,000	\$4,000	\$6,000	\$12,000	\$16,000	\$20,000	\$20,000	\$20,000	\$24,000	\$20,000	\$40,000	\$30,000	\$214,000

Modest early sales,  
allowing for ramp up time.

Growing sales through social media  
campaign and April sales promotion

Seasonal peak

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# Key Terms: COGS and Operating Expenses

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- **Cost of Goods Sold (COGS)** are costs that are directly related to the number of product units sold.
  - Examples: cost to manufacture product, shipping cost, merchant fees, etc.
  - Varies as a percentage of sales revenues (**Variable Expense**)
  - Note: Many one-person service businesses do not have COGS (owner's time is not considered variable; everything is considered operating expenses).
- **Operating Expenses** are costs that do not directly change with the number of products or services delivered.
  - Examples: Rent, salaries, insurance, utilities, accounting & legal fees, etc.
  - Does not vary with sales, fixed month to month (**Fixed Expense**)

# Projecting Cost of Goods Sold (COGS)

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- There are two general methods to project COGS:
  - Actual Cost paid for the product or service delivered to the customer
  - For products, consider Direct Materials, Direct Labor and Overhead involved.
    - Manufacturing of Hats requires fabric material at a cost of \$ 5.50 per hat. The seamstress is paid \$ 20.00 per hour and it takes 10 minutes to make a hat ( $\$ 20.00 \times (10/60 \text{ minutes}) = \$ 3.33$  of direct labor. Sewing machines and floor space are used to make hats. This equates to overhead of \$ 1.17 per hat. Cost of Goods Sold for Hats =  $\$ 5.50 + \$ 3.33 + \$ 1.17 = \$ 10.00$
  - % of Sales Price, where COGS is estimated based on a percentage of the sales price of the product/service; e.g., restaurant food costs are typically 30% of sales
    - This needs to be justified by research – NAICS codes are industry and revenue size specific data which can be found in your local library for your business. You can find a typical income statement with ratios for each revenue & expense item.

# The Dude's Cowboy Hat: Margin and COGS Calculation

<b>Retail Price to Consumer</b>	<b>\$40</b>
<b>Cost of Goods Sold</b>	
Cost to Manufacture Hat	\$10
Shipping to Amazon (avg/hat)	\$1
Fulfillment (per Hat)	\$5
Online Commission (15%)	\$6
<b>Total Cost of Goods Sold (Variable Costs) per Hat</b>	<b>\$22</b>
<b>Gross Profit per Hat</b>	<b>\$18</b>
COGS percentage	55%
<b>Gross Margin</b>	<b>45%</b>

Sales Price to Customer

Cost of Goods Sold –  
All costs to get the  
product in the hands  
of the customer for  
final use

Gross Profit per Hat

Gross Margin



**The Dude's  
Indestructible,  
All-Weather  
Cowboy Hat**

# How to Improve Your Gross Margin on Products?

- Because gross margin relates to the price at which you sell your product and the cost of obtaining that product, to improve your gross margin you must either:
  - ... Increase the sales price you charge for your product, and / or
  - ... Lower the cost you pay for your product or service, or
  - ... Do Both!

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### KEY POINT:

How can you improve your gross margin?

Which is easier?

Pricing can be easier if you can raise the perception of value to the customer

For basic commodities, price is determined by the marketplace in which case you have to focus on lowering the costs

# Projecting Operating Expenses

- Tend to be fixed; does not vary much as a function of the sales that are generated.
- Take into account all time frames for the year:
  - Bi-Weekly (W-2 Employee Payroll)
  - Monthly (Rent, Utilities, Web Hosting)
  - Quarterly (Payroll taxes, Workmen's Comp)
  - Semi Annual (Auto Insurance)
  - Annual (License Renewal, Insurance, Property Tax)

## Common Operating Expenses Include

Acctg & Bookkeeping	Interest Expense
Advertising & Marketing	Insurance Expense
Automobile Expense	Internet Expense
Banking Fees	Legal & Professional Fees
Bus Licenses & Permits	Office Supplies
Cleaning Supplies	Payroll Taxes
Cloud Storage Fees	Rent Expense
Continuing Education	Telephone Expense
Dues & Subscriptions	Travel
Employee Payroll	Utilities
Equip & Maintenance	

# The Dude's Monthly Operating Expenses



## **The Dude's Indestructible, All-Weather Cowboy Hat**

Monthly Operating Expenses	
Office Rent	\$1,200
Advertising & Promotion	\$1,500
Bookkeeping & Admin Support	\$500
Utilities	\$500
Other Operating Expenses (Food delivered, office cleaning, etc.)	\$300
<b>Total Avg Monthly Op Exp</b>	<b>\$4,000</b>



## **The Dude's School of Roping & Riding**

Monthly Operating Expenses	
Supplies Consumed	\$75
Truck Lease Payments	\$1,500
Fuel / Transportation	\$200
Advertising & Promotion	\$50
License, Fees and Other	\$50
<b>Total Avg Monthly Op Exp</b>	<b>\$1,875</b>

# The Dude's Riding & Roping Projected Net Profit

**Giddyup!**



Dude's Riding and Roping Projected P/L (Annual)		
Sales:		
Sessions per day (5 days a week)	3	
Billable days/sessions per year (48 weeks)	240 / 720	
Fee per Session	\$200	
Total Sales (maximum)		\$144,000
Projected Utilization	70%	
<b>Total Sales (Projected)</b>		<b>\$100,800</b>
Operating Expenses:		
Supplies (fuel, feed, etc.):	\$3,300	
Truck Lease Payments	\$18,000	
Insurance (Semi Annual – two payments)	\$1,200	
Advertising & Promotion	\$600	
Licenses, Legal, Professional	\$600	
<b>Total Operating Expenses</b>		<b>\$31,800</b>
<b>Net Profit</b>		<b>\$71,400</b>

- The Dude's Net Income is based upon selling and delivering against utilization goal.
- 70% utilization becomes "sales goal" for business.
- Must justify with market research.

# The Dude's Cowboy Hat: Net Profit Projections (6-Mos)

- Using his Sales Revenue, COGS and Operating Expense projections, we can calculate the Dude's Net Profit by month

**The Dude's Indestructible,  
All-Weather Cowboy Hat**



	Jan	Feb	March	April	May	June
Unit Sales	50	100	150	300	400	500
Revenue	\$2,000	\$4,000	\$6,000	\$12,000	\$16,000	\$20,000
COGS	\$1,100	\$2,200	\$3,300	\$6,600	\$8,800	\$11,000
Gross Profit	\$900	\$1,800	\$2,700	\$5,400	\$7,200	\$9,000
Operating Expenses	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Net Profit	(\$3,100)	(\$2,200)	(\$1,300)	\$1,400	\$3,200	\$5,000

# The Dude's Roping: Net Profit Projections (Year 1)



**The Dude's School of Riding & Roping**

Per our Basis of Estimate, we can complete the Year 1 projections for the Roping business. We noted that our utilization was capped @ 70% and we also take into account a drop off in sessions around the holidays in our sales projections.

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Year 1
<b>Sessions (1)</b>	10	12	15	22	29	34	37	41	33	25	13	3	274
<b>Price per Session</b>	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	
<b>Revenues</b>	\$ 2,000	\$ 2,400	\$ 3,000	\$ 4,400	\$ 5,800	\$ 6,800	\$ 7,400	\$ 8,200	\$ 6,600	\$ 5,000	\$ 2,600	\$ 600	\$ 54,800
<b>Operating Expenses (2)</b>	\$ 2,475	\$ 1,875	\$ 1,875	\$ 1,875	\$ 1,875	\$ 2,475	\$ 1,875	\$ 1,875	\$ 1,875	\$ 1,875	\$ 1,875	\$ 2,475	\$ 24,300
<b>Profit</b>	\$ (475)	\$ 525	\$ 1,125	\$ 2,525	\$ 3,925	\$ 4,325	\$ 5,525	\$ 6,325	\$ 4,725	\$ 3,125	\$ 725	\$ (1,875)	\$ 30,500
<p>(1) Max Sessions per Month = 720 sessions per year / 12 months = 60 sessions per month x 70% utilization = 42 max sessions per month</p> <p>(2) Truck Insurance is paid every six months which is why Operating Expenses jumps every six months in the projections</p>													

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- 6. Projecting the Balance Sheet**
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# Balance Sheet – Initial Startup



The Balance Sheet for the Roping business is very simple – we do not own any assets. Everything is flowing through our cash account as sales and operating expenses

ASSETS			LIABILITIES + EQUITY	
Cash	(Cover Initial Startup)	2,500	Short Term - Vendor Invoices Due (Accounts Payable)	-
Total Current Assets		<u>2,500</u>	Total Short Term Liabilities	<u>-</u>
Truck (Leased / Not Owned)		<u>-</u>	Long Term Loan	-
Total Long Term Assets		-	<b>TOTAL LIABILITIES</b>	<u>-</u>
<b>TOTAL ASSETS</b>		<u>2,500</u>	Owner's Investment	2,500
			<b>TOTAL LIABILITIES + OWNER'S EQUITY</b>	<u>2,500</u>

# Balance Sheet – Year End (Close Out)

The Dude's School of  
Riding & Roping



ASSETS		LIABILITIES + EQUITY	
December 31st - Year End Closed			
Cash	1,250	Short Term - Vendor Invoices Due (Accounts Payable)	-
Total Current Assets	<u>1,250</u>	Total Short Term Liabilities	<u>-</u>
Truck (Leased / Not Owned)		Long Term Loan	-
Total Long Term Assets	<u>-</u>	<b>TOTAL LIABILITIES</b>	<u>-</u>
		Owner's Investment	2,500
		Owner's Withdrawal	(31,750)
		Retained Earnings	30,500
<b>TOTAL ASSETS</b>	<u>1,250</u>	<b>TOTAL LIABILITIES + OWNER'S EQUITY</b>	<u>1,250</u>

Once again, we close out Year 1 Profits or Loss to Retained Earnings.

We also reflect the total amount the owner withdrew from the business in Year 1

# Balance Sheet – Initial Startup Balances

**The Dude's Indestructible,  
All-Weather Cowboy Hat**

The owner invests \$ 18,000 to start up the business, covering one-time expenses such as equipment:



ASSETS			LIABILITIES + EQUITY	
Cash (Cover Oper Expense)	5,500		Short Term - Vendor Invoices Due	-
Start-Up Inventory	5,000		(Accounts Payable)	
Total Current Assets	10,500		Total Short Term Liabilities	-
Equipment (Sewing)	7,500		Long Term Loan	-
Total Long Term Assets	7,500		<b>TOTAL LIABILITIES</b>	-
<b>TOTAL ASSETS</b>	<b>18,000</b>		Owner's Investment	18,000
			<b>TOTAL LIABILITIES + OWNER'S EQUITY</b>	<b>18,000</b>

# Balance Sheet – Year End

**The Dude's Indestructible,  
All-Weather Cowboy Hat**



NOTE: At year end, we will depreciate the Equipment

ASSETS		LIABILITIES + EQUITY	
as of December 31 - Year 1			
Cash	4,250	Short Term/Credit Card Loan	8,000
Inventory in Stock	2,000		
<b>Total Current Assets</b>	<b>6,250</b>	<b>Total Short Term Liabilities</b>	<b>8,000</b>
Equipment - \$ 7,500 / 10 years		Long Term Loan/Family	2,000
Less Depreciation \$ 750			
<b>Book Value of Equipment</b>	<b>6,750</b>	<b>TOTAL LIABILITIES</b>	<b>10,000</b>
<b>Total Long Term Assets</b>	<b>6,750</b>	Owner's Investment	18,000
		Owner Withdrawal of Capital	(63,300)
		Retained Earnings (Profit or Loss)	48,300 (1)
		<b>TOTAL EQUITY</b>	<b>3,000</b>
<b>TOTAL ASSETS</b>	<b>13,000</b>	<b>TOTAL LIABILITIES + OWNER'S EQUITY</b>	<b>13,000</b>

In this example, we have closed out our Projected Net Profits for Year 1 to **Retained Earnings**.

**KEY POINT:** As cash builds up over time, take owner withdrawals and / or invest back into the business

(1): Profit for Year 1 = Sales Revenues of \$ 214,000 - \$ 117,700 Cost of Goods Sold - \$ 48,000 Operating Expenses

# Balance Sheet – Some Additional Points

- Tangible Fixed Assets (Equipment, Vehicles, Machinery) – Don't forget to depreciate these assets over their useful life and reflect Depreciation Expense in the Projected Income Statement
- Loan Repayments – Must divide between principal (reduces the Liability on the projected Balance Sheet) and Interest Expense (reported on the projected Income Statement)
- Year End Close Out – Don't forget to zero out all Revenue and Expenses. The difference (profit or loss) is zeroed out and posted to Retained Earnings on the Balance Sheet
- Bad Practice – *Assets – Liabilities = Net Worth*. Prepare a real Balance Sheet that reflects what you have invested + Retained Earnings
- Equity vs. Income – Owner, Partner, Family investment = Equity. Grants, Pitch Competition and Crowdfunding are “Other Income” = Income Statement

# Agenda

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1. Introduction
2. The Three Basic Financial Statements
3. Projecting Your Startup Costs
4. Projecting Revenue
5. Projecting Expenses and Net Profit
6. Projecting the Balance Sheet ← **QUESTIONS?**
7. **Projecting Cash Flow**
8. Closing

# When are Cash Flow Projections Needed?

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- Cash flow management is required to ensure you have sufficient cash on hand to meet your obligations going forward
- Businesses need cash flow projections when:
  - Sales to customers are on credit. Example: Invoices issued to customers
  - Your business has an inventory of products to sell. When to restock requires cash
  - Business is very seasonal (i.e., times during the year when your business has little or no cash coming in and you still have fixed obligations to meet).
  - The business is paying down a substantial loan or is locked into a lease contract.
  - A business is expanding rapidly or has opportunities for growth.
  - The business is just starting out and there are lots of unknown expenses.

# Projecting the Dude's Cash Flow

**The Dude's Indestructible,  
All-Weather Cowboy Hat**



	Pre-Startup	Jan	Feb	March	April	May	June	Jul
<b>Beginning Balance (Cash on Hand)</b>	\$ 18,000	\$ (200)	\$ (2,400)	\$ (2,600)	\$ (5,800)	\$ 2,000	\$ 8,800	\$ 19,600
<b>Cash Paid In (Sources of Cash)</b>								
Cash Received from Customers	-	\$2,000	\$4,000	\$6,000	\$12,000	\$16,000	\$20,000	\$20,000
<b>Total Cash Inflows</b>	<b>\$0</b>	<b>\$2,000</b>	<b>\$4,000</b>	<b>\$6,000</b>	<b>\$12,000</b>	<b>\$16,000</b>	<b>\$20,000</b>	<b>\$20,000</b>
<b>Cash Paid Out (Uses of Cash)</b>								
Operating Expenses								
Rent	2,400	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Advertising & Promotion		1,500	1,500	1,500	1,500	1,500	1,500	1,500
Legal & Professional		500	500	500	500	500	500	500
Utilities	600	500	500	500	500	500	500	500
General Admin		300	300	300	300	300	300	300
Licenses and Permits	500							
Insurance	1,000							
Miscellaneous Start Up	1,000							
Investing Activities								
Cash Paid for Additional Inventory	5,000	-	-	5,000	-	5,000	5,000	5,000
Office Equipment & Website	7,500							
Financing Activities								
Credit Card Loan Repayment	200	200	200	200	200	200	200	200
<b>Total Cash Outflows</b>	<b>\$ 18,200</b>	<b>\$ 4,200</b>	<b>\$ 4,200</b>	<b>\$ 9,200</b>	<b>\$ 4,200</b>	<b>\$ 9,200</b>	<b>\$ 9,200</b>	<b>\$ 9,200</b>
<b>Net Cash Flows</b>	<b>\$ (18,200)</b>	<b>\$ (2,200)</b>	<b>\$ (200)</b>	<b>\$ (3,200)</b>	<b>\$ 7,800</b>	<b>\$ 6,800</b>	<b>\$ 10,800</b>	<b>\$ 10,800</b>
<b>Ending Cash Balance</b>	<b>\$ (200)</b>	<b>\$ (2,400)</b>	<b>\$ (2,600)</b>	<b>\$ (5,800)</b>	<b>\$ 2,000</b>	<b>\$ 8,800</b>	<b>\$ 19,600</b>	<b>\$ 30,400</b>

NOTE: You have a cash shortfall of \$ 5,800 per your forecasted Cash Flow Statement

# Revisiting Startup Costs – Working Capital Needs



**The Dude's Indestructible,  
All-Weather Cowboy Hat**

One-Time Startup Expenses	Total
Licenses and permits:	\$500
Location: (Rent - 2 months/utilities)	\$3,000
Office Equipment & Website:	\$7,500
Inventory:	\$5,000
Insurance:	\$1,000
Misc.:	\$1,000
<b>Basic Startup Expenses:</b>	<b>\$18,000</b>
Working Capital Needed:	
Cash Flow Funds Shortfall	\$6,000
Contingency Funds	\$5,000
<b>Total Startup Funds Needed</b>	<b>\$29,000</b>

- The Duke needs to add Working Capital to his start up funds.
- Working Capital:
  - “Cash Flow Funds,” and
  - “Contingency Funds” (needed to cover losses plus about 1-2 months of operating expenses.)

To cover projected cash flow deficit (rounded up from \$5,800 deficit).

Contingency funds will cover 2 months of the Dude's operating expenses.

# Projecting Cash Flow for an Existing Business



- The Dude is up and running and has secured a new project starting Feb 1
  - Hires 2 people mid-January to work the project with him; starts paying them right away
  - Client is invoiced monthly; net30 terms (i.e., 3/1 invoice for February work is paid 4/1)
  - Business needs to pay salaries for 2½ months before getting paid by the client
- The Dude needs a cash cushion to cover his projected cash flow deficit through May

	Jan	Feb	March	April	May	June	Jul
<b>Beginning Balance (Cash on Hand)</b>	\$ -	\$ (7,500)	\$ (22,000)	\$ (36,500)	\$ (21,000)	\$ (5,500)	\$ 10,000
Cash Received from Clients	-	-		\$30,000	\$30,000	\$30,000	\$30,000
<b>Total Cash Inflows</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$30,000</b>
Salaries (2 staff)	7,000	14,000	14,000	14,000	14,000	14,000	14,000
Misc Operating Expenses	500	500	500	500	500	500	500
<b>Total Cash Outflows</b>	<b>\$ 7,500</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>	<b>\$ 14,500</b>
<b>Net Cash Flows</b>	<b>\$ (7,500)</b>	<b>\$ (14,500)</b>	<b>\$ (14,500)</b>	<b>\$ 15,500</b>	<b>\$ 15,500</b>	<b>\$ 15,500</b>	<b>\$ 15,500</b>
<b>Ending Cash Balance</b>	<b>\$ (7,500)</b>	<b>\$ (22,000)</b>	<b>\$ (36,500)</b>	<b>\$ (21,000)</b>	<b>\$ (5,500)</b>	<b>\$ 10,000</b>	<b>\$ 25,500</b>

# Projecting Your Cash Flow Recap

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- Ensure your startup funding can cover all expenses until breakeven (a point where enough money is coming in to cover your monthly recurring expenses). *Example: Total Cash on Hand \$ 50,000 with monthly burn rate of \$ 5,000 per month = 10 months are covered*
- Plan for a cash cushion in the event that sales are slow to materialize, or operating costs exceed original estimates
- Continue to project cash flows once you're up and running
  - A cash cushion may be needed to allow for seasonality, credit payment terms, monthly invoicing (service businesses), and other factors that can affect timing of cash inflows relative to expenses

QUESTIONS?

# Agenda

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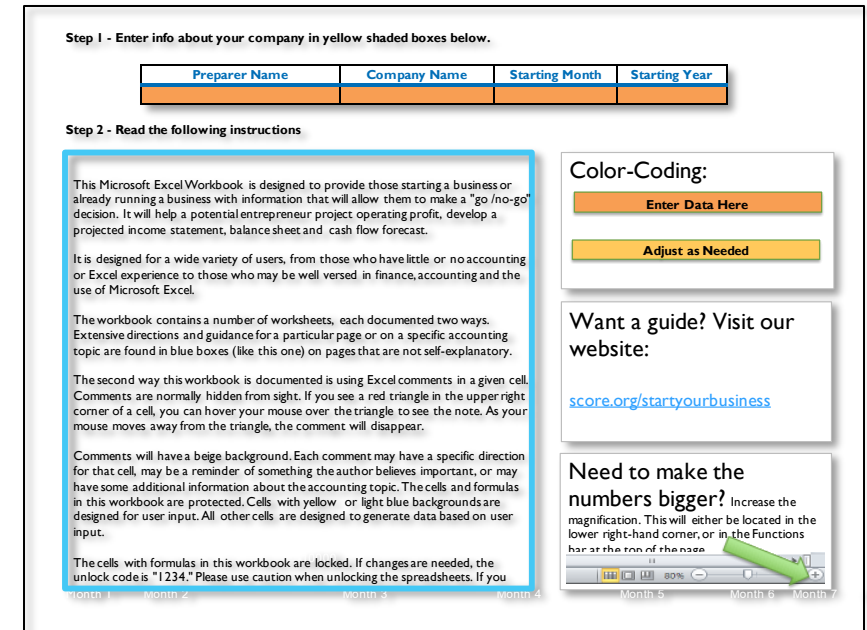
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# Which Templates to Use for Your Financial Projections?

- You may choose to create your own templates, using the ideas in the previous slides, and other examples with which you're comfortable.
- See the SCORE website for an integrated financial projections template:
  - <https://www.score.org/resource/financial-projections-template>.
  - Recommend you start with the Template workbook and complete this first:

We recommend downloading the Financial Projections template in [English](#) or [Spanish](#).

DOWNLOAD TEMPLATE 



Step 1 - Enter info about your company in yellow shaded boxes below.

Preparer Name	Company Name	Starting Month	Starting Year

Step 2 - Read the following instructions

This Microsoft Excel Workbook is designed to provide those starting a business or already running a business with information that will allow them to make a "go/no-go" decision. It will help a potential entrepreneur project operating profit, develop a projected income statement, balance sheet and cash flow forecast.

It is designed for a wide variety of users, from those who have little or no accounting or Excel experience to those who may be well versed in finance, accounting and the use of Microsoft Excel.

The workbook contains a number of worksheets, each documented two ways. Extensive directions and guidance for a particular page or on a specific accounting topic are found in blue boxes (like this one) on pages that are not self-explanatory.

The second way this workbook is documented is using Excel comments in a given cell. Comments are normally hidden from sight. If you see a red triangle in the upper right corner of a cell, you can hover your mouse over the triangle to see the note. As your mouse moves away from the triangle, the comment will disappear.

Comments will have a beige background. Each comment may have a specific direction for that cell, may be a reminder of something the author believes important, or may have some additional information about the accounting topic. The cells and formulas in this workbook are protected. Cells with yellow or light blue backgrounds are designed for user input. All other cells are designed to generate data based on user input.

The cells with formulas in this workbook are locked. If changes are needed, the unlock code is "1234." Please use caution when unlocking the spreadsheets. If you

Color-Coding:

Enter Data Here

Adjust as Needed

Want a guide? Visit our website:  
[score.org/startyourbusiness](https://www.score.org/startyourbusiness)

Need to make the numbers bigger? Increase the magnification. This will either be located in the lower right-hand corner, or in the Functions bar at the top of the page.

# Helpful Links

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- SCORE Financial Templates Library > <https://www.score.org/templates-resources/business-planning-financial-statements-template-gallery>
- A few YouTube Videos worth checking out:
  1. Accounting Stuff for Beginners > <https://www.youtube.com/@AccountingStuff>
  2. Financial Statements Explained > <https://youtu.be/e8qbynFb4Zc?si=F7KYcb5FniWK5u1A>
  3. Ten Tips for Building a Financial Plan > <https://youtu.be/Oqw1Rj0MVJo?si=N9fv3NMnbgsZwwgl>
  4. Total Costs to Open Restaurant > <https://youtu.be/q9azMSrvQqw?si=AqDp0NQbwd5v-EbZ>
  5. Total Costs to Open Coffee Shop > <https://youtu.be/VPUNN7OvITo?si=kZ8wutSkcd84zPmv>
  6. Building a Financial Model from Scratch in Excel (90 minutes) > <https://youtu.be/Rmi9fwkJjHw?si=HGlj4f5Zk3a-pCmA>

# Webinar Go-Do's

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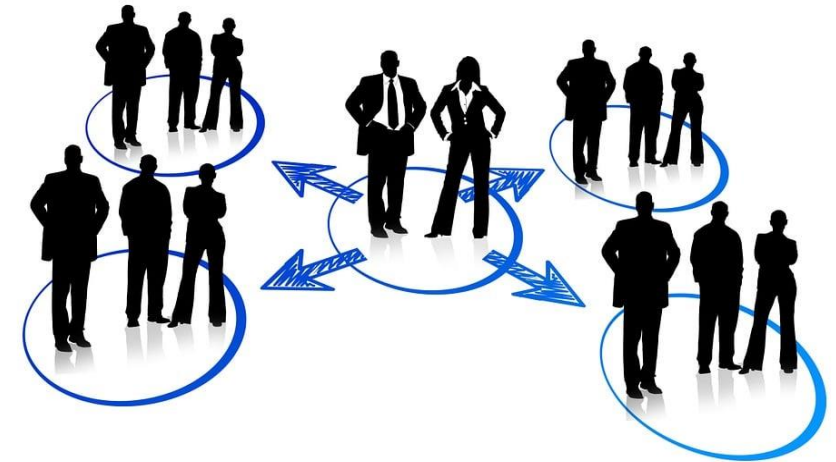
- Create your financial plan and review with your mentor:
  - Calculate your startup costs and working capital needs.
  - Project your sales for your first year of business.
  - Create a projected P&L Statement for the first year in business.
  - Create a Cash Flow Statement for your first year in business.
- If you do not have a SCORE mentor, request one at [www.score.org/find-mentor](http://www.score.org/find-mentor)

# JOIN OUR **NEW** MONTHLY NETWORKING EVENT

## Networking: Building Connections for Business Success

### What You'll Do in This 90-Minute Session:

- Connect with your fellow entrepreneurs
- Introduce your business
- Start achieving your networking goals
- Walk away with new contacts



### REQUIREMENTS TO ATTEND:

- ✓ Current SCORE Client with a Mentor
- ✓ Active Participant in the current Small Business Essentials Series

### **First Session Launches This Month!**

Moderated by a SCORE Mentor

✓ Free to attend | ✓ Interactive | ✓ Fun & Practical

# QUESTIONS?



# THANK YOU FOR YOUR PARTICIPATION



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