Research & Writing a Business Plan – Financial Assessment

Small Business Development Center
University of Wisconsin Oshkosh College of Business
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***Business Planning Process Overview**

– Step #1 – Market Assessment

– Step #2 – Financial Assessment

– Step #3 – Management Assessment

– Step #4 – Securing Start-Up/Expansion Financing

***Financial Assessment Process – Will Starting/Expanding Business Make Financial Sense?**

– Estimating Start-Up/Expansion Costs (Worksheet #5)

– How much will it cost to open or expand your business?

– Operating Budget for First Year (Worksheet #6)

– What will be your business revenues and expenses for the next twelve months?

– Operating Budgets for Second and Third Years (Worksheet #7)

– What will be your annual revenues and expenses after the next twelve months?

– Sources & Uses of Funds, and Cash Flow for First Three Years (Worksheet #8)

– How will your business be financed for the next three years?

– Business Assets, Liabilities and Equity for First Three Years (Worksheet #9)

– How will the value of your business grow during the next three years?

– Breakeven Analysis (Worksheet #10)

– How much sales revenue or volume do you need to cover expenses?

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Worksheet #5 – Estimating Startup/Expansion Costs

Start-up and expansion costs vary widely depending on the type of business. If an item does not apply to your business, simply leave that section of the form blank.

Item	Total Estimated Cost	Equity Investment (by owner if any)
Business Location Examples: - Loan Down Payment to Purchase Building - Security Deposit to Lease Office/Building - Remodeling Cost for Home-Based Business		
Machinery & Equipment Examples: - Production machinery and tools - Storage and display equipment - Vehicles for travel or delivery		
Office Furnishings & Fixtures Examples: - desks, chairs, tables, file cabinets, etc.		
Office Equipment Examples: - Computer and printer - Business software - Fax machine and/or copier - Phone system and/or cell phone		
Other Items (specify): Examples: - Initial Inventory - Creation of Web Site - Lawyer fee for creating LLC		
Initial Cash On-Hand - to cover first month operating expenses		
Total Startup Costs		
Less: Equity Investment		
Financing Required		
Value of Loan Collateral (if any)		

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Worksheet #5 – Estimating Startup/Expansion Costs – Loan Payments

Note: To calculate an estimated loan payment for various interest rates, go to the Arkansas Small Business Development Center web site: http://asbdc.ualr.edu/scripts/affordabilly/

Financing Required for Startup/Expansion (from previous page)	
Annual Interest Rate	**Estimated Monthly Loan Payment**
2%	
3%	
4%	
5%	
6%	
7%	
8%	

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Worksheet #6 – Operating Budget for First Year - Fixed Expenses

Projected Fixed Expenses	Month #1	Month #2	Month #3	Month #4	Month #5	Month #6	Month #7	Month #8	Month #9	Month #10	Month #11	Month #12	Annual Total
Business Location: Example: - Rent or lease payment													
Utilities: Examples: - Electricity and heating - Telephone and cell phone - Internet access													
Insurance: Examples: - Property - Business Liability													
Professional Service Fees: Examples: - Bookkeeper or accountant - Lawyer													
Supplies: Examples: - Office supplies - Other: _____													
Advertising & Marketing: - Advertising, brochures, web site, trade shows, etc.													
Employee Salaries & Wages: - Salaries & Wages - Social Security taxes - Workers comp. insurance - Benefits													
Owner's Compensation - Owner's Draw													
Other Fixed Expenses:													
Total Fixed Expenses													
Loan Payments: Examples: - Start-up/Expansion Expenses - Building Mortgage - Equipment Loan													

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Worksheet #6 – Operating Budget for First Year – Projected Sales

There are a number of methods that can be used to project sales. Below are two common examples.

Projected Sales based on Unit Sales

	Month #1	Month #2	Month #3	Month #4	Month #5	Month #6	Month #7	Month #8	Month #9	Month #10	Month #11	Month #12	Annual Total
Projected Unit Sales (see Note 1)													
Average Price per Unit (See Note 2)													
Projected Sales Revenue (Units X Price = Revenue)													

Notes:

1. Depending on the type of business, the term "unit" can mean a physical product, an hour of service, a project or job, etc.
2. When a company will have multiple prices for its products or services, the "average price per unit" can be a *simple average* of all the various prices (which assumes equal quantities of each product will be sold) or a *weighted average* based on the projected "mix" of products or services to be sold.

Projected Sales based on Customer Sales

	Month #1	Month #2	Month #3	Month #4	Month #5	Month #6	Month #7	Month #8	Month #9	Month #10	Month #11	Month #12	Annual Total
Projected No. of Customers													
Ave. Revenue per Customer													
Projected Sales Revenue (Customers X Ave. Revenue = Total Revenue)													

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Worksheet #6 – Projected Profit & Loss Statement for First Year – Sales, Variable Expenses and Profit/Loss

	Month #1	Month #2	Month #3	Month #4	Month #5	Month #6	Month #7	Month #8	Month #9	Month #10	Month #11	Month #12	Annual Total
Projected Sales Revenue (from previous page)													
Projected Variable Expenses ____% of Sales = Expenses or Units x Cost/Unit = Expenses													
Projected Fix Expenses (from previous page)													
Total Expenses (Fixed and Variable)													
Projected Profit (Loss) (Revenue – Expenses = Profit)													
Less: Loan Payments: - Start-up/Expansion Expenses - Building Mortgage - Equipment Loan													
Profit/Loss after Loan Payments													

Notes:

1. Depending on the type of business, the term "unit" can mean a physical product, an hour of service, a project or job, etc.
2. When a company will have multiple prices for its products or services, the "average price per unit" can be a simple average of all the various prices (which assumes equal quantities of each product will be sold) or a weighted average based on the projected "mix" of products or services to be sold.
3. Variable expenses are expenses that vary directly with sales, such as the cost of buying a product from a supplier, hiring an independent contractor to perform part of the service. Another term for variable expenses is "cost of goods sold".

Variable Expenses	Month #1	Month #2	Month #3	Month #4	Month #5	Month #6	Month #7	Month #8	Month #9	Month #10	Month #11	Month #12	Annual Total
Projected Unit Sales (see Note 1)													
Variable Expenses per Unit (see Note 3)													
Projected Variable Expenses													

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Worksheet #7 – Projected Profit & Loss Statements for Second and Third Years – Sales, Variable Expenses and Profit/Loss

	Year 2	Year 3
Projected Sales Revenue (from previous page)		
Projected Variable Expenses ____% of Sales = Expenses or Units x Cost/Unit = Expenses		
Projected Fix Expenses (from previous page)		
Total Expenses (Fixed and Variable)		
Projected Profit (Loss) (Revenue – Expenses = Profit)		
Less: Loan Payments: - Start-up/Expansion Expenses - Building Mortgage - Equipment Loan		
Profit/Loss after Loan Payments		

Notes:

1. Depending on the type of business, the term "unit" can mean a physical product, an hour of service, a project or job, etc.
2. When a company will have multiple prices for its products or services, the "average price per unit" can be a simple average of all the various prices (which assumes equal quantities of each product will be sold) or a weighted average based on the projected "mix" of products or services to be sold.
3. Variable expenses are expenses that vary directly with sales, such as the cost of buying a product from a supplier, hiring an independent contractor to perform part of the service. Another term for variable expenses is "cost of goods sold".

Variable Expenses	Year 2	Year 3
Projected Unit Sales (see Note 1)		
Variable Expenses per Unit (see Note 3)		
Projected Variable Expenses		

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Worksheet #8 – Combined Sources & Uses of Funds and Cash Flow Statements

Item	Startup Funds	Year 1	Year 2	Year 3
Owner's Cash Investment in Business				
Cash from other Investors				
Cash from Loans and other Forms of Debt				
Less: Startup Costs & Expenses				
Cash On-Hand at Start of Operations/Year				
Add: Cash Receipts from Customers				
Less: Cash Paid to Suppliers and Employees for fixed and variable expenses (see Note 1)				
Cash Position after Operations				
Less: Interest & Principal Paid on Loans (Monthly Payment X 12 months)				
Add: Additional Investment or Loans				
Less: Owner's Draw (if any)				
Cash On-Hand at End of Year (see Note 2)				

Notes:

1. Excluding loan payments and owner's draw.
2. Cash on hand at the end of one year is the same as cash on-hand at start of following year

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Worksheet #9 – Projected Balance Sheet

	Beginning of Year 1		End of Year 1		End of Year 2		End of Year 3	
Balance Sheet Item	**Assets**	**Liabilities & Equity**	**Assets**	**Liabilities & Equity**	**Assets**	**Liabilities & Equity**	**Assets**	**Liabilities & Equity**
Cash on Hand								
Accounts Receivable								
Inventory On Hand								
Fixed Assets – building, land, machinery, etc.								
Total Assets								
Accounts Payable								
Loans Payable (see Note 1)								
Owner's Investment/Equity (see Note 2)								
Total Liabilities and Equity								
Assets vs. Liabilities & Equity (see Note 3)								

Notes:

1. Principle amount only - loans payable amount is reduced by principal paid during the year
2. Owner's Equity may be a negative or positive number depending on whether the business was profitable and/or additional loans were taken out during year.
3. The Total Assets must always equal the Total Liabilities & Equity, with the equity being the difference between total assets and total liabilities.

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Worksheet #10 – Breakeven Analysis

When a business does not project a profit for its first year of operations, it's important to project the point at which the business will be able to breakeven financially. Depending the type of business, there are various ways to calculate breakeven points. Below are some examples:

Breakeven Analysis – Retail Business	
Projected Annual Fixed Expenses	$
Average Profit per Unit* Ave. Price per Unit – Variable Expenses per Unit = Ave. Profit per Unit	
Breakeven Point in Units (Total Annual Fixed Expenses/Average Profit per Unit)	
Breakeven Point in Revenue Fixed Expenses + (Variable Expense per unit X Breakeven Point in Units)	$

**Note:* If a business has multiple products, an overall average profit per unit must be calculated based on estimated product mix of sales.

Breakeven Analysis – Manufacturing Business	
Projected Annual Fixed Expenses	$
Average Profit per Unit* Ave. Price per Unit – Variable Expenses per Unit = Ave. Profit per Unit	
Breakeven Point in Units (Total Annual Fixed Expenses/Average Profit per Unit)	
Breakeven Point in Revenue Fixed Expenses + (Variable Expense per Unit X Breakeven Point in Units)	$

**Note:* If a business has multiple products, an overall average profit per unit must be calculated based on estimated product mix of sales.

Breakeven Analysis – Service Business	
Projected Annual Fixed Expenses	**$**
Number of Billable Hours per Year Allow for a certain percentage of non-billable hours each week. *Example:* 10 hours per week @ 50 weeks per year = 500 hours	
Minimum/Breakeven Price per Hour	**$**