

Expense	Cost
Total Cost of Capital Equipment	
Beginning Inventory of Operating Supplies	
Legal Fees	
Accounting Fees	
Other Professional Fees	
Licenses and Permits	
Remodeling and Repair Work	
Deposits (Public Utilities, etc.)	
Advertising	
Insurance	
Bonds	
Advance Permit Fees	
Other Expenses:	
TOTAL COST	

Sources and Uses of Financing:

Another essential financial forecast includes determining your sources of initial financing. The following points are a few of the steps you should think about before opening the doors of a new business. For the following table:

- Fill in the cash amounts to be invested by the various owners or shareholders.
- Fill in the market value of non-cash assets to be invested by the various owners or shareholders. Examples include equipment, vehicles, and buildings.
- Fill in the bank loans to your business, both short-term (one year or less) and long-term.
- Fill in any Small Business Administration loans from any other sources.
- Fill in the amounts of cash used to buy various assets in the *Uses of Financing* section.
- Fill in the non-cash assets contributed by the owner (use the same amounts listed in Sources of Financing).
- Estimate your “working capital” needs. This often means “current assets minus current liabilities.” However, we use “working capital” here to describe that money that you will need to pay operating expenses for the first few months of business operation until profits are realized. The number of months of working capital depends on the business, but as an absolute minimum you should have three

months of expense money in the bank. You should discuss this with your banker, and you may want to consider a pre-approved loan called a “line of credit” which you draw funds from only when you need to have them.
DON'T SKIP THIS STEP!

Sources:

Sources of Funds	Amount (\$)
Investment of cash by owners	\$
Investment of cash by shareholders	
Investment of non-cash assets by owners	
Investment of non-cash assets by shareholders	
Bank loans to business: short-term (one year or less)	
Bank loans to business: long-term (more than one year)	
Bank loans secured by personal assets	
Small Business Administration loans	
Other sources of financing (specify)	
Total Sources of Financing	\$

Uses:

Uses of Funds	Amount (\$)
Buildings	\$
Equipment	
Initial inventory	
Working capital to pay operation expenses	
Non-cash assets contributed by owners	
Other assets (specify)	
Total Uses of Financing	\$

Cash Flow Projections:

The cash flow projection is the most important financial planning tool available to you. If you were limited to only one financial statement, the *Cash Flow Projection* would be the one to choose.

For a new and growing business, the cash flow projection can make the difference between success and failure. For an ongoing business, it can make the difference between growth and stagnation.

Your Cash Flow Projection will:

- Show you how much cash your business will need.
- When it will be needed.
- Whether you should look for equity, debt, operating profits, or sales of fixed assets.
- Where the cash will come from.

The cash flow projection attempts to budget the cash needs of a business and shows how cash will flow in and out of the business over a stated period of time. This includes cash flows into the business from sales, collection of receivables, capital injections, etc., and out flows through cash payments for expenses of all kinds.

A cash flow deals only with actual cash transactions. Depreciation, a non-cash expense, does not appear on a cash flow statement. Loan repayments (including interest), on the other hand, do, since they represent cash disbursements.

After it has been developed, use your cash flow projections as a budget. If the cash outlays for a given item increase over the amount allotted for a given month, you should find out why and take corrective action as soon as possible. If the figure is lower, you should also find out why. If the cash outlay is lower than expected, it is not necessarily a good sign. Maybe a bill was not paid. By reviewing the movement of your cash position you can better control your business.

The level of detail you wish to provide is another judgment call. You might benefit from breaking down your cash flow into a series of cash flows, each representing one profit center or other business unit. This may be particularly helpful if you have more than one source of revenue. The accumulated information gained by several projections can be very valuable.

Balance Sheet:

Balance sheets are designed to show how the assets, liabilities, and net worth of a company are distributed at a given point in time. The format is standardized to facilitate analysis and comparison.

Balance sheets for all companies, great and small, contain the same categories arranged in the same order. The difference is one of detail. Your balance sheet should be designed with your business information needs in mind. These will differ according to the kind of business you are in, the size of your business, and the amount of information your bookkeeping and accounting systems make available.

A sample balance sheet follows:

Name of the Business
Date (month, day, year)
Balance Sheet

Assets		
Current Assets		\$ _____
Fixed Assets	\$ _____	
Less Accumulated Depreciation	\$ _____	
Net Fixed Assets		\$ _____
Other Assets		\$ _____
Total Assets		\$ _____
Liabilities		
Current Liabilities		\$ _____
Long-Term Liabilities		\$ _____
Total Liabilities		\$ _____
Net Worth of Owner's Equity		\$ _____
Total Liabilities and Net Worth		\$ _____

The Income Statement:

Income Statements, also called Profit and Loss Statements, complement balance sheets. The balance sheet gives a static picture of the company at a given point in time. The income statement provides a moving picture of the company during a particular period of time.

Income projections are forecasting and budgeting tools estimating income and anticipating expenses in the near to middle range future. For most business (and for most bankers) income projections covering one to three years are more than adequate. In some cases, a longer-range projection may be called for, but in general, the longer the projection; the less accurate it will be.

While no set of projections will be 100% accurate, experience and practices tend to make the projections more precise. Even if your income projections are not accurate, they will provide you with a rough set of benchmarks to test your progress toward short-term goals. They become the basis of your budgets.

The reasoning behind income projection is: since most expenses are predictable and income does not fluctuate too drastically, the future will be much like the past. For example, if your gross margin has historically been 30% of net sales, it will (barring strong evidence to the contrary) continue to be 30% of net sales. If you are in a startup situation, look for financial statement information and income ratios for businesses similar to yours. The Robert Morris Associates' "Annual Statement Studies" and trade association publications are two possible sources.

Try to understate your expected sales and overstate expenses. It is better to exceed a conservative budget than to fall below optimistic projections. However, being too far under can also create problems, such as not having enough capital to finance growth. Basing income projections on hopes or unjustified fears is hazardous to your business's health. Be realistic; your budget is an extension of your forecasts.

In Part III, we will discuss how to do successful market research for your business.