

Preparing Financial Information for Your Business Plan



Fishman + Company
Business & Tax Advisors

www.fishmancpa.com

516-731-7373

Agenda

- Discuss financial information that is included in a business plan
 - Financial Statements
 - Forecast Facts and Assumptions
 - Valuations
 - Return on Investment



**Do I really have to work on
the financial statements?**

The three reports that make up a set of financial statements

- Balance Sheet
- Profit and Loss Statement
- Statement of Cash Flows

What do the three reports represent?

- Balance Sheet - Report card of where your assets and liabilities stand at any point in time.
- Profit & Loss Statement or Income Statement - A schedule of income and expenses for a period of time.
- Statement of Cash Flow - A report of sources and uses of cash.

Other Parts of a Financial Statement

- Notes

- Examples:

- Description of business activity
 - Method of depreciation
 - Concentration of risk regarding customers and suppliers
 - Terms of Loans/Notes Receivable/Payable
 - Going concern
 - Impairments of assets
 - Inventory valuation methods

Other Parts of a Financial Statement (Continued)

- Supplementary Schedules (Any schedule that provides greater detail to any one of the 3 reports)
 - Examples:
 - Changes in Equity
 - Schedule of General and Administrative Expenses

Balance Sheet

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

		Dec 31, 20
ASSETS		
	Current Assets	112,969.44
	Fixed Assets	421,718.31
	Other Assets	1,720.00
TOTAL ASSETS		<u>536,407.75</u>
LIABILITIES & EQUITY		
Liabilities		
	Current Liabilities	13,702.18
	Long Term Liabilities	421,675.06
Total Liabilities		<u>435,377.24</u>
	Equity	101,030.51
TOTAL LIABILITIES & EQUITY		<u>536,407.75</u>

Profit & Loss

Income – Expenses = Net Income

		Jan - Dec 2020
Ordinary Income/Expense		
	Income	169,260.27
	Cost of Goods Sold	71,367.56
Gross Profit		97,892.71
	Expense	72,630.95
Net Ordinary Income (EBITDA)		25,261.76
Other Income/Expense		281.03
Net Income		25,542.79

Statement of Cash Flows

NI+Cash From Activities+Beg Cash = End Cash

		Jan - Dec 20
	OPERATING ACTIVITIES	
	Net Income	25,542.79
	Adjustments to reconcile Net Income to net cash provided by operations:	
	Net cash provided by Operating Activities	25,542.79
	INVESTING ACTIVITIES	44,435.91
	FINANCING ACTIVITIES	-34,220.96
	Net cash increase for period	35,757.74
	Cash at beginning of period	40,442.03
	Cash at end of period	76,199.77

Other Financial Info You May Want to Include

- Major customers
- Major suppliers
- Limitations on skilled labor
- Location of production facilities and offices

Financial Statement Summary

- Business Plans Include:
 - Financial statement history for actively operating companies
 - Forecasts of future operations for actively operating companies and for concept companies (no activity as of yet)
 - Historical financials should be no more than 5 years
 - Forecasted financials should be no more than 5 years

Forecasts for Crystal Balls Unlimited, Inc.



Forecasts For Business Plans

- Usually covers no more than 5 years
- Can create a single forecast or multiple forecast scenarios
- Uses assumptions based on market data, industry data and actual quotes
- Start with your Profit & Loss Statement

Areas That Require Forecasting Facts and Assumptions

- Revenue streams
- Costs to produce revenue (COGS)
- Overhead costs
- Cash flows from operations
- Capital need (start up or expansion) Examples:
 - Investment in machinery and equipment
 - Investment in facility

Revenue Streams

Product and Service Businesses

- Identify and separate each product and service your company will offer
- Estimate revenue generated based on following data:
 - # of customers
 - Frequency of use or purchase by customer
 - # of units sold or service hours to be charged



Cost to Produce Revenue (COGS)

Crystal Ball Production Costs

- Per unit and over a volume range
 - Raw materials
 - Equipment costs
 - Labor costs
 - Packaging
 - Shipping
 - Or just subcontract production and get cost estimates

R&D COSTS-RECPATURE



Cost to Produce Revenue (COGS)

Crystal Ball Reading Costs

- Service costs
 - Labor hours
 - Labor costs
 - Equipment costs
 - Materials and supplies

Estimate Overhead Costs

- Start with main categories and then break them down further
 - Facility costs
 - G&A labor
 - Marketing
 - Insurance
 - Utilities
 - IT
 - Taxes

Forecast Preparation with Facts and Assumption Summary

- No more than 5 years
- Present most likely scenario
- Can present alternative scenarios – best case and worst case
- The stronger your facts and assumptions are, the stronger your forecast will be.

Valuations



Why Should You Understand and Valuations?

- Effects the amount that a bank will lend you
- Effects the amount of equity an investor will want
- Determines the sales price of your business

How Does This Information Get Presented in Your Business Plan?

- Matter of preference however...
- As part of the Capitalization Section which includes:
 - Amount of capital sought
 - Use of capital
 - Amount of equity exchanged for the capital infusion
 - Method in determining value of the company

Valuation Methods

- The business is worth what a buyer is willing to pay but you can support your asking price through valuation methods:
 - Value (not cost) of business assets less liabilities
 - Forecasted cash flows (Discounted to current value)
 - Multiples of Revenue
 - Check this link for more info
www.entrepreneur.com/article/66442

Return on Investment



Return on Investment

- Formula

$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

- Investors look at ROI to compare against other investment opportunities
- The riskier the investment, the higher the required ROI
- ROI is effected by business valuation and expected profit from company



Thank You!!



Fishman + Company
Business & Tax Advisors

www.fishmancpa.com

516-731-7373

New York

Florida

California