



where could your  
**BUSINESS**  
grow with a share of

**\$500,000?**

West Texas A&M University  
***Enterprise Center***

Business Plan Deadline: January 13, 2012 by 5 pm

# Financial Plan

- Balance Sheet – Reports what the company owns, what it owes, and the net worth that remains for the owners of the business
- Income Statement – Shows the net income or loss that the business has experienced over a period of time
- Cash Flow Statement – Documents the cash that flows into and out of a business on a monthly basis

# Financial Requirements

- All Entrants must submit:
  - Amount of Investment required (no limits)
  - Justification of grant funds requested (\$1,000 - \$100,000)
  - Sources of Uses of Funds Statement
  - Appropriate Financials Statements in Required Format

# Financial Requirements

- Historical Income Statements and Balance Sheets for past 3 years
- Projected Income Statements, Balance Sheets and Cash Flow Statements for 3 years
  - Monthly for the first year and years 1 – 3 annualized, common-sized

# Income Statement

- Shows the net income or loss that the business has experienced over a period of time

Revenue

- Cost of Goods Sold

= Gross Margin

- Operating Expenses

= Net Income

# Sales Projections

- Should be based on facts, not guesses
- Write these facts into assumption statements that support your financial projections
  - How you developed your sales forecast and predict growth
  - Differences related to seasonal variation
  - Include facts and figures to substantiate your sales forecast

# Sales Projections

- Be Realistic
- Where do Sales come from?
- What affects Sales?
  - Cyclical trends
  - Price Structure
  - Volume
  - Industry
  - Economy
  - Weather

# Sales Projections

- How do you get good sales estimates?
  - Industry research
  - Average Sale X Number of sales transactions you expect over a certain period
  - Cost method – taking total costs plus the amount of desired profit = total annual sales

# Cost of Sales

$$\begin{aligned} & \text{Beginning Inventory} \\ & + \text{Purchases} \\ & - \text{Ending Inventory} \\ & = \text{Cost of Sales} \end{aligned}$$

- Raw Materials
- Labor
- Production Expenses

# Operating Expenses

- Fixed Expenses – remain constant
  - Salaries
  - Payroll Taxes
  - Benefits
  - Rent
  - Utilities
  - Insurance
  - Interest
  - Maintenance

# Operating Expenses

- Variable Expenses – fluctuate
  - Commission
  - Labor
  - Freight
  - Travel
- Mixed Expenses – treat like fixed
  - Advertising
  - Postage
  - Telephone

# Balance Sheet

- Reports what the company owns, what it owes, and the net worth that remains for the owners of the business

$$\begin{array}{r} \text{Assets} \\ + \quad \underline{\text{Liabilities}} \\ = \quad \text{Net Worth} \end{array}$$

# Cash Flow

Documents the cash that flows into and out of a business on a monthly basis

$$\begin{array}{rcl} & \text{Beginning Cash Balance} & \\ + & \underline{\text{Cash Receipts}} & \\ = & \text{Total Cash Available} & \\ - & \underline{\text{Cash Disbursements}} & \\ = & \text{Ending Cash Balance} & \end{array}$$

# Common Sizing

Technique to convert dollar amounts on financial statements to percentages. One number from each statement is used as the common value and all other numbers are divided by that number.

Income Statement – “Sales”

Balance Sheet – “Total Assets”

# Common Sizing

## Income Statement

Sales	\$100,000	100%
COGS	<u>\$ 63,000</u>	<u>63%</u>
GP	\$ 37,000	37%
OE	<u>\$ 22,000</u>	<u>22%</u>
NI	\$ 15,000	15%

# Common Sizing

## Balance Sheet

### Assets

Cash	\$11,000	22%
A/R	\$12,500	25%
Inventory	<u>\$26,500</u>	<u>53%</u>
Total Assets	\$50,000	100%

### Liabilities and Equity

Short-term	\$11,500	23%
Long-term	<u>\$21,000</u>	<u>42%</u>
Total Liabilities	\$32,500	65%
Total Equity	<u>\$17,500</u>	<u>35%</u>
Total Liab & Equity	\$50,000	100%

# Break Even Analysis

$$\frac{\text{Operating Expenses}}{\text{Profit Margin \%}} = \text{BE \$}$$

$$\frac{\text{Operating Expenses}}{\text{Price/Unit} - \text{Cost/Unit}} = \text{BE Units}$$

# Questions?

[www.AmarilloEnterPrizeChallenge.com](http://www.AmarilloEnterPrizeChallenge.com)

Or Call

806-374-9777

West Texas A&M University  
***Enterprise Center***