

## 2 The Financial Plan

### Introduction

The financial plan is critical to the success of your business plan – especially if it is for the purpose of getting a bank loan. The Cash Flow Forecast is arguably the most important part of the plan, but each of the other documents is important from a planning perspective. There are three sections in a financial plan:

- The Starting Balance Sheet
- The Pro-Forma (or Forecast) Income Statement
- The Cash Flow Forecast (each of these sections should have notes of explanation for the reader).

### The Financial Planning Template

To assist you in this process, we have created a template written for MS/Excel. Click here to access the template. This will take you through seven worksheets, each asking for financial information. This information is then assembled into the three statements described above. Information can be changed, and the results of the change are immediately calculated. This will take you to a reasonable first draft of your financials – but you will have to make some final adjustments for your particular situation.

If you are using a printout of this guide you can find the Excel template under <http://www.cse.gov.bc.ca/ReportsPublications/FinancialTemplate.XLT>

### Before You Get Started

#### The Beauty of "What If?"

It is almost impossible to get things right the first time. In all business planning, but especially in the financial section, it is important to try different scenarios. What if I purchase used equipment instead of new equipment? What if I raise or lower prices? What if I reduce my personal draw? By trying different scenarios, you will soon determine what it will take to make your business financially viable.

With business planning, you must keep trying until you have a result that is reasonable and that you are convinced is achievable.

#### Five Tips on your Financial Plan

1. **Be persistent!** Most people do not have expertise in finance so preparing a financial plan is a journey into the unknown. Be patient.
2. **Read the entire planning guide** before starting on the plan. You will learn what information you require to assemble the financial part of the plan.
3. **Get help in assembly, but not in research.** These should be your numbers and assumptions. You will be responsible for achieving these objectives so you should believe in the numbers.

### Financial Plan Outline

#### Starting Costs

- › Estimate Current Assets
- › Estimate Capital Assets
- › Estimate Start-up Expenses

#### Starting Balance Sheet

- › Total Assets (from above)
- › Planned Investment (Equity)
- › Planned Loans (Liabilities)
- › Balance Sheet Formula
- › Assets = Liabilities + Equity

#### Income Statement

- › Start-up Expenses (from above)
- › Forecast Revenue
- › Forecast Cost of Goods
- › Forecast Overhead Expenses
- › Revenue - Expenses  
= Net Profit

#### Cash Flow

- › Estimate Monthly Sales
- › Adjust Monthly Sales for AR
- › Account for loans & investments
- › Calculate Total Receipts
- › Estimate Monthly Purchase
- › Adjust for AP
- › Estimate Monthly Overheads
- › Estimate Loan Repayment
- › Forward Start-up Costs
- › Calculate Disbursements
- › Starting Balance  
+ Receipts  
- Disbursement  
= Ending Balance