

Business Plans & Planning

Would you start on a trip across the United States without a road map or plan for getting to your destination? What if a builder tells his crew to start building a house but doesn't provide building plans? The home will eventually get built, and you might eventually arrive at the desired destination, but it's likely that much time and money will be wasted. Likewise, starting and managing a business also requires ongoing planning to achieve success.

Unfortunately, many small business managers get so busy in day to day operations they never have quality time to reflect on past performance and think about future opportunities. The lessons of history are clear about the folly in failure to spend sufficient time in planning. Insufficient planning often results in overly optimistic sales and expense forecasts, poor preparation for contingent actions when forecasts are not achieved or new opportunities arise, and burdensome financial commitments that cannot be fulfilled.

Written business plans are prepared for reasons that include:

- (1) Facilitate evaluation of new opportunities
- (2) Obtain money from lenders & investors
- (3) Justify and communicate budgets and goals
- (4) Educate employees so they work in a coordinated and cooperative manner to achieve objectives
- (5) Gain support and participation of others who may influence success
- (6) An explanation/reminder of the reasons for actions and expected achievements against which performance can be measured
- (7) Maximize the appeal and value of the business entity to prospective buyers

The chapter titled "Organizing The Organization" provides important guidelines for the planning process and information that should be included in your plan. The balance of this chapter discusses written business plans designed to communicate and sell management ideas so money can be obtained for business startup, expansion, or survival. Although the primary purpose for a written plan may be to obtain funds, the results of the research

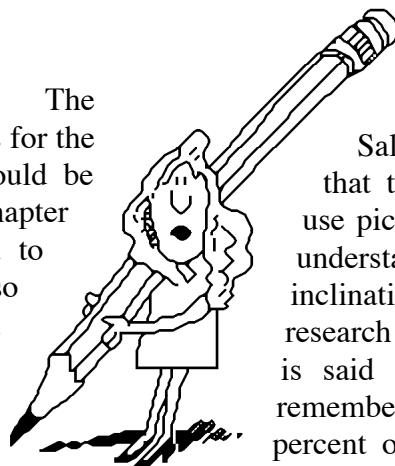
required to develop a good plan will increase the entrepreneur's understanding of critical issues, provide a "road map" for future actions, communicate a plan of action with others so everyone can work together to achieve common goals, and establish standards against which future performance can be measured.

Business planning for startup and growth involves at least seven distinct steps:

- (1) Identification, research, development, and evaluation of new products, services, acquisitions, and/or strategies. Preliminary financial forecasts are prepared during this stage to determine the viability of options. This stage usually requires many months or years of effort and/or on-the-job experience. For most businesses this stage never stops: if it does the business eventually declines and closes.
- (2) Identification of specific assets/services/human resources needed and associated costs, identification of suppliers, obtainment of customer commitments, and time frames for implementation.
- (3) Finalization of financial forecasts and design of an optimal capital structure that will facilitate success (please see the "Capital Structure" chapter).
- (4) Preparation of a written business plan that contains important information and motivates others to participate
- (5) Presentation of plans to lenders, investors, and others to obtain support so the project can proceed.
- (6) Obtainment of capital and implementation of plans.
- (7) Performance evaluation.

Put It in Writing

Salespeople discovered long ago that the most effective sales methods use pictures and other visual aids to aid understanding and increase appeal. This inclination to see things is supported by research that indicates over 75% of what is said in a ten minute period is not remembered, and approximately 87% percent of the mental impact made on a



buyer of your ideas or products is through sight. The following ancient Chinese proverb is still valid today: "Hearing something 100 times is not as good as seeing it once." Without written documentation and visual displays, a lender may find it difficult to truly understand or remember all the important facts so a loan can be approved. A well-written business plan cannot make a bad business idea into a good idea, but it can substantially enhance the potential for a good idea to become reality.

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When preparing this type of plan, the person requesting money must be able to see themselves through the eyes of a lender or investor to understand what information the plan should contain. There's an old proverb in sales that says "If I'm going to sell what my prospect buys, then I must sell through my prospect's eyes." It is frequently very difficult to view yourself and a project objectively enough to understand the perspective of others, but it is absolutely necessary if you want to sell your ideas and enhance your chances for success. Thus, not only must you provide the right answers to their questions, you must look, act, and speak in a manner that gives confidence in your abilities and is appropriate for your endeavor.

Because banks and other financial institutions (collectively referred to as commercial lenders) are a major source of money for businesses, let's discuss several things a commercial lender will consider when you make a request for money. First, most lenders are in business to earn profits, thus they are very interested in developing a long term mutually beneficial relationship that allows you and them to prosper. Second, lenders do not have unlimited availability of funds, and therefore must be selective about which loan requests they can satisfy. Some worthy borrowers are denied loans simply because there is not enough money to lend. Third, be aware that different commercial lenders have varying levels of knowledge about and comfort with different types of loan arrangements. A businesses and loan request that is too risky at one institution may be easily accepted at another. Fourth, lenders may talk to hundreds or thousands

of potential borrowers each year, with each borrower genuinely convinced that their business success is almost a "sure" thing. However, experienced lenders are naturally cautious about lending to young businesses and for new products because they know that even the best ideas and plans can fail. There are over twenty-five million small businesses in America, and hundreds of thousands fail or close each year. Many studies indicate that the majority of new startups fail or voluntarily close within the first five years of existence.

To improve your odds for business success and convince a lender of your potential, you must demonstrate that you are knowledgeable of and can successfully respond to important factors, named the "5 C's of Credit Management," that most commercial lenders will use to evaluate your request. They are:

Character-willingness to repay

Capacity-ability to repay loans from operating cash flows

Capital-financial resources available to facilitate growth and reduce risk

Collateral-security available to guarantee repayment

Conditions-vulnerability to external competitive and economic conditions

In addition, the lender will carefully evaluate your situation with respect to the following specific major reasons why many businesses and projects fail. Be ready and willing to discuss these issues objectively and prove that you will be successful.

- overestimate sales (we must temper enthusiasm with realism)
- underestimate costs (get facts from knowledgeable sources, don't guess)
- too little capital to absorb losses if sales take longer than anticipated to develop (most startups experience negative cash flows for the first several years)
- poor management in finance, marketing, personnel, or production (most managers can't be effective at everything and must have knowledgeable assistance)

- lack of the beneficial personality traits of frugality, commitment, discipline, perseverance (managing a new business can create much stress and test endurance)

Organization

Have you ever had anyone ask to borrow money from you? What thoughts did you have as you were being asked? You may have found that much time could have been saved, and understanding increased, if the borrower had presented information in a sequence that responded to your natural questions. For example, if you discovered early in the discussion that the loan amount was too much you could immediately stop the presentation. Likewise, you might have been more interested and listened more closely if you knew early in the discussion why the money was needed. The point of this discussion is that your plan will be much more warmly received if it is structured to follow the natural thought process of the lender. Characteristics of major importance to the lender should be presented early in the plan and/or easily accessible so the lender doesn't waste time if the plan doesn't meet basic criteria for acceptance. The three basic questions a borrower must answer are listed below. Usually these three questions are discussed briefly in the beginning in verbal and written presentations to verify interest, and then addressed in more detail later if the lender has interest.

- (1) How much do you want?
- (2) Why do you want it?
- (3) How do I know I will be repaid?

Your business plan may be reviewed by many people with different concerns and areas of knowledge before a lender can give a final decision on acceptance. You may not have an opportunity to meet all those who influence the lending decision, so make sure that all important topics are complete with required information, and easy to understand without need for additional explanation.

Lenders see business plans that range in length from single pieces of scrap paper to hundreds of pages. Common sense tells us that the details surrounding most worthwhile projects require much more space to explain than a single sheet of paper,

but many lenders don't have time to read giant business plans either. Strive to make your plan as concise as possible, but include all important facts.

There is no perfect format for a business plan and many different opinions on how a plan should be constructed. Examples of business plans and suggested formats can be obtained from many business organizations, schools, governments, economic development programs, providers of professional services, and through many internet sites. You can purchase computer programs that provide valuable information, pre-written generic plans, and fill-in-the-blank documents. There are also many professionals (business consultants, marketing consultants, financial consultants, accountants, and attorneys) who will aid you in all or part of the business plan development for a fee. Although you will eventually personally discuss your plans with lenders, there are professionals who will personally initially present your business plan to lenders and identify the best candidates.

As a lender and consultant, I have had many plans presented to me that lacked important information, and where the entrepreneur obviously did not understand its contents and contradicted them in discussions. Your chances for success will be greatly enhanced if you design a plan that is easy for you to understand and explain, and responds to the potential questions and concerns of readers for your specific situation. A business plan format that I have developed and successfully used many times is presented in at the end of this chapter.

How long does preparing a good business plan take? The time required is usually related to the complexity of the project and how much justification the lender needs. A good short written business plan takes much more time to prepare than a poor long one. The development of a written business plan that explains your opportunity may require ten hours of labor for the most basic projects to fifty hours or more for complex and risky projects. The assistance of professionals who are experienced in business plan preparation or portions thereof usually result in a more effective business plan in less time. The presentation of the plan to lenders and associated follow-up discussions through loan completion seldom

happens in less than several weeks and often takes several months and more.

The following observations and suggestions may help in developing an effective business plan:

Get Help If You Have Weak Communication Skills - One does not need to have good speaking or writing skills to achieve success. However, it is imperative that the business plan be presented in a professional manner, clearly articulates your plans, and inspires people to help. There are many sources of free and fee based professional services who will help put your ideas in writing. The price paid (in time or money) for assistance is usually small compared to the cost of failure if your requests for assistance are not approved.

Get Help If You Have Weak Financial Skills - I have reviewed many business plans where the financial forecasts were mathematically incorrect, poorly constructed, incomplete, confusing, or unrealistic. Sometimes the capital structure (e.g. debt level, equity level, loan terms, collateral) was poorly designed, not adequately explained, not appropriate for the request, or not even presented (the entrepreneur wanted the lender to suggest a structure). Sometimes the amount of money desired from the lender was not identified because the borrower didn't know how much was needed or wanted to see what the lender offered. One does not need to have strong financial skills to achieve business success, but some basic business financial knowledge is usually required and thus should be demonstrated. It is imperative that the financial portion of your business plan be accurate, realistic, complete, and appropriate for your specific situation. There are many sources of free and fee based professional services who will help. The price paid (in time or money) for assistance is usually small compared to the cost of failure if your requests for assistance are not approved.

Be Conservative When Estimating Labor Costs - Many new entrepreneurs significantly underestimate labor costs. A common problem in forecasting labor requirements is that many entrepreneurs anticipate employees will be as productive as the entrepreneur. However, often

employees are much less productive, and it is easy for individual effort to decline significantly as the number of employees grows. In addition, employee turnover, vacations, and various other types of absences force businesses to hire excess employees so production levels can be maintained. Because labor costs are so significant for most businesses, and because labor requirements can be influenced by many factors that are difficult to control, be very conservative when forecasting labor costs and time requirements.

Forecast Under Different Scenarios - When forecasting sales and expenses, consider performance under various scenarios of customer demand, product/service design, and prices. Also consider various economic, competitive, or environmental conditions that could influence customer buying behavior. Don't limit yourself to just planning for the most likely scenario. Awareness of the impact of different scenarios helps in making good long run decisions and developing successful contingency plans. Computerized spreadsheets make evaluation of alternative scenarios relatively easy.

Timing Is Critical - I often prepare forecasts in situations where the availability of money is limited, and substantial delays in generating profitable sales could create hardship or business failure. In these situations I prepare financial forecasts month-by-month for the first one or two years and then annually thereafter to a total of five years (forecasts beyond five years are highly uncertain). It is not uncommon for clients to tell me that it is almost impossible to forecast sales with any accuracy on a monthly or annual basis for the next several years. However, they are confident that their expectations of future sales, which is the basis for their actions, will eventually be achieved. Unfortunately businesses incur costs and repay loans even when there are no sales, and if profitable sales are not generated quickly enough they can run out of cash and fail before sales goals are achieved. Thus, prudent estimates of the timing of sales growth are essential for achievement of success.

Do It Right The First Time - Obtaining loans for new businesses and projects based on uncertain expectations and forecasts can be challenging. It is often much more difficult, or impossible, to obtain additional capital and modify loan repayment terms if relatively soon after initial loans are obtained it is discovered that financial promises cannot be kept due to overly optimistic forecasts, planning and implementation mistakes, or unexpected events. Situations like these can cause providers of capital to have serious doubts about the integrity and ability of the borrower and their likelihood for success. Thus, make sure that the amount and repayment terms of initial loans and investments are done with due consideration for various alternative scenarios so that the need to subsequently ask for more money is minimized.

Friends Can Be Biased - Be cautious when surveying for opinions about the sales potential for your product. Many people (especially family and friends) will tell you what you want to hear, but are not good customer prospects and thus are not representative of desired target markets. The best way to evaluate potential demand is to advertise/promote the product and/or sell it on a limited basis in limited geographic areas (referred to as “test marketing”).

Be Objective - Get objective outside opinions about alternative marketing strategies (e.g. pricing, design, promotion, distribution). An entrepreneur can easily get so knowledgeable about, and enthralled with, a product that it is difficult to appreciate how a less knowledgeable prospect will perceive the product and promotional efforts.

All Costs Are Not Directly Determined by Sales - When preparing expense forecasts, there is often a tendency to make most costs a direct percentage of sales so all information is concise and easy to assemble. However, many costs do not bear a direct relationship to sales, and some cost increases significantly precede sales growth. It is not uncommon for net income to temporarily decline at various points during sales growth as new expenses are incurred and assets are acquired to

accommodate growth. Failure to forecast realistic costs can have disastrous consequences.

Prepare Complete Balance Sheets - For businesses that have significant asset requirements (e.g. inventory, accounts receivable, equipment), I usually recommend that complete balance sheets accompany income and expense statement forecasts. This is the best way to identify actual capital requirements, and allows others to understand your situation and needs more easily. Examples of financial statement forecasts are displayed at the end of this chapter.

Lenders Want To Feel Secure - Lenders only loan money when they have a high degree of confidence that they will be repaid per agreements. They gain confidence when the business or loan guarantors have ongoing reliable earnings available well in excess of that needed to make the loan payments on time. They also desire that there be assets that could be sold to repay loans in the event that the borrower could not make payments as promised. Lenders will ask that these assets be legally pledged to them as collateral which can be sold upon demand by the lender. The costs of repossession of collateral by a lender can be very high, thus they require that the fair market value of the collateral exceed that of the loan by a comfortable margin so that extra costs can be recovered. Lenders will typically loan money up to 70% or 90% of the fair market value of real estate, 90% to 100% of the value of vehicles, 50% to 80% of the value of equipment, 70% to 80% of the value of good accounts receivable, 0% to 60% of the value of good inventory, 0% for cash and checking accounts, and 50% to 100% of the value of liquid investments that the lender can control. The percentage applied is determined by collateral certainty of value and expected length of time to sell. For example, lenders place little to no collateral value on perishable food inventory because it would spoil before they could collect and resell it. They do not place collateral value on cash and checking accounts because the money is likely to be spent by the borrower if they are having financial difficulties. Lenders will often loan almost all of the purchase price of vehicles because they

are easy to sell and values are easy to determine. However, business solvency rather than loan availability should be the most important factor in determining the proper amount of debt and equity utilized (please see the "Capital Structure" chapter).

Keep Some Information Private - A business plan may be shared with different lenders who are being asked to provide money for different things like real estate, vehicles, production equipment, or working capital. It may be also shared with others to educate them about the business to gain their participation or emotional support. Because the written plan may have different uses and readers, it may contain information which can have competitive/legal consequences if becomes public knowledge, create unnecessary issues because it would not be understood or could be misinterpreted, and/or will violate others privacy. In these situations it is appropriate to prepare multiple versions of the written plan and/or provide sensitive information separate from the business plan as needed to accomplish your goals. Sensitive information may include owner and guarantor personal financial information, customer lists, marketing strategies, vendor information, legal issues, historical and current financial statements, capital structure, current loan details, ownership, etc.

Choose Your Words Carefully - Lenders/investors will carefully listen to your presentation/request to see if you express any doubts or uncertainty about your expectations and forecasts. They have a duty to inform their employer, and others they advise or who are affected, of your uncertainties and anything you share with them "in confidence" that may be important in their decision process. No matter how friendly you feel towards the person to whom you are speaking, do not say anything that needlessly creates uncertainties towards your opportunities for success.

Once Denied, Always Denied - Lenders/investors who decline to participate in your project usually are not inclined to change their mind. To change their mind will require additional time they may not have, may imply that they are emotionally weak or

lack conviction, or imply that they made mistakes in their evaluation. Thus, make sure that your initial business plan and presentation are as appealing, accurate, and complete as possible. Do not ask them for a commitment of acceptance or denial until you are sure they have all required information.

High Quality Written Business Plans Are Not Always Needed For Lenders - Lenders will often loan money without good documentation or explanations of plans when the amount of money requested is relatively small, they feel that it is obvious there is ample cash flow from current earnings to repay the loan, and/or there is ample collateral to repay the loan if the borrower defaults. Sometimes lenders will loan money without close scrutiny of the merits of the business opportunity based on knowledge about the borrower that indicates a high likelihood of success or little risk of lender loss.

Don't Count Your Chickens Before They Are Hatched - This famous proverb from Aesop in 570 B.C. is applicable to implementation of your business plan. Enthusiasm and optimism can cause entrepreneurs to cast prudent decision making aside. Thus, it is not uncommon for entrepreneurs to start spending money and making commitments before loan approvals and required permissions are obtained. In today's competitive and dynamic business environment conditions can change quickly, and those being asked for help accordingly can change their willingness to participate very late in the process. Thus, never make costly commitments before loans and approvals are finalized unless you have the financial wherewithal to withstand delay or stoppage of the project.

Business Planning Should Be an Ongoing Process, Not an Event - The assembly of a well designed written business plan is a worthwhile accomplishment. Unfortunately, most written business plans become outdated before the ink is dry because market opportunities and the competitive environment are constantly changing. As a result, make a special effort to develop the research and evaluation techniques utilized in

construction of the plan into ongoing procedures that allow management to quickly anticipate, access, and respond to new challenges and opportunities.



Business Plan Components For Presentation To Lenders & Investors

by Douglas A. Stemen

- 1) Cover Sheet-** *Purpose is to make it easy for the reader to identify the plan and contact you. It should include the following basic information and can include graphics of pictures to enhance appeal.*
 - Business name, address, and telephone number
 - Owner/contact name(s), address, and telephone number
 - Presentation/preparation date

- 2) Table Of Contents-** *Purpose is to help the reader quickly locate information. This is not required for short plans.*

- 3) Executive Summary (1-2 pages)-** *Purpose is to help the reader quickly and easily determine if there is preliminary interest in the project. This should usually not exceed one to two pages.*
 - Summarize information contained in the following sections within several pages so the reader can quickly understand what you want to do, why you want to do it, required funding, expected results, and risk characteristics. This is usually the last section completed.

- 4) Current Business Description (usually 3 to 10 pages)-** *Purpose is to provide background information to aid in reader understanding and demonstrate management knowledge. Skip this part if you do not have an existing business. This section can be very short with minimal details if the decision maker for your request is very familiar with the business. Any or all of the following information can be included if it is beneficial in gaining reader support.*
 - Office/plant/store location(s) and sizes *Include pictures to aid understanding.*
 - Legal form & owners (C corporation, S corporation, LLC, partnership, proprietorship, etc.). *Lender will want to see important member and partner operating agreements.*
 - Basic sales/profits information to orient reader to your size *Detailed information can be displayed in the financial history section.*
 - Basic employment level information to orient reader to your size *Detailed information can be displayed in the organization/management/personnel section.*
 - Products/services description *Include pictures or brochures to aid understanding.*
 - Important inventory/material vendors/sources
 - Basic description of production methods
 - Basic description of warehouse and distribution operations
 - Identify major and important customers, how much they buy and why they buy from you
 - How are your products distributed/delivered to customers
 - Description of your primary target markets/customers (e.g. location, social and economic characteristics, interests, size, primary factors in their purchase decision, etc.)
 - Pricing strategies *Include price lists/catalogs to aid in understanding.*
 - Promotion/advertising/personal selling methods
 - Identify competitors and your competitive strengths and weaknesses relative to them
 - Long range goals & objectives
 - Important operating philosophies/strategies
 - Major accomplishments/important events
 - Future plans and market potential
 - Explain significant current or pending litigation for products or business

5) Project Description - *Purpose is to explain what you want to do, provide important details, and convince readers that you are knowledgeable and will succeed.*

- Explain what you want to do (i.e. general project description). *If you are primarily seeking refinancing or more money for existing operations then summarize how much money you want and the desired repayment terms. Detailed financial forecasts should be contained in the financial forecasts section.*
- Explain why you want to do it (e.g. desire to be an entrepreneur, new sales opportunities, areas of concern that will be corrected, increased operating efficiencies, goals and objectives that the project will help you achieve)
- Identify the expected results (e.g. increased sales and profits, reduced costs, increased stability, lower risk, etc.). *Detailed financial forecasts should be contained in the financial forecasts section.*
- Explain how you will achieve the expected results. *This usually includes important management and marketing strategies and considerations. Any or all of the following information can be included if it is beneficial in gaining reader support. If you are primarily seeking refinancing or more money for existing operations then much of this information will be discussed in part four and does not need to be discussed again. Much following information should be included if the project involves establishment of a new service, product, or business.*
 - Office/plant/store location(s) and sizes *Include pictures/drawings to aid understanding.*
 - Legal form & owners (C corporation, S corporation, LLC, partnership, proprietorship, etc.). *Lender will want to see important member and partner operating agreements.*
 - Basic sales/profits forecasts *Detailed information can be displayed in the financial forecast section.*
 - Industry/market data that supports sales and profit estimates
 - Basic employment level information *Detailed information can be displayed in the organization/management/personnel section.*
 - Products/services description *Include pictures or brochures to aid understanding.*
 - Important inventory/material vendors/sources
 - Basic description of production methods
 - Basic description of warehouse and distribution operations
 - Identify important prospective customers, how much they will buy and why they will buy from you
 - Provide copies of customer purchase orders/agreements to purchase from you.
 - How will your products be distributed/delivered to customers
 - Description of your primary target markets/customers (e.g. location, social and economic characteristics, interests, size, primary factors in their purchase decision, etc.)
 - Pricing strategies *Include price lists/catalogs to aid in understanding.*
 - Promotion/advertising/personal selling methods
 - Identify competitors and your competitive strengths and weaknesses relative to them
 - What are likely competitor reactions to your project
 - Long range goals & objectives
 - Important operating philosophies/strategies
 - Regulations and outside factors that may influence performance
 - Important regulations applicable to, and approval processes necessary for, commencement & completion
 - Time frames for completion

6) Property/Equipment Details- *Purpose is to provide details about assets and services to be purchased or used as collateral.*

- Description of equipment to be purchased which includes cost estimates, manufacturer name, vendor name from whom it will be purchased, model number, expected purchase date, basic specifications/description
- Equipment appraisal *Sometimes an appraisal of existing equipment will be required if it is an important part of the collateral. Information about values should be included in this section and large reports can be provided upon request.*
- Real estate descriptions
- Real estate appraisal *Often an independent appraisal of existing and new real estate will be required. Information about values should be included in this section and large reports can be provided upon request.*
- Architect & engineering drawings, renderings, and plans *Large volumes of detailed information can be separately provided to the reader upon request.*
- Environmental summaries *Large volumes of detailed information can be separately provided to the reader upon request.*
- Itemized listing of existing major assets used as security/collateral that displays manufacturer name, model number, basic specifications/description, acquisition date, cost, and estimated fair market value *Often an independent appraisal of assets will be required.*

7) Organization/Management/Personnel- *Purpose is to show that the management skills, experience, personnel, and organizational structure necessary for success are established or available. This section can be omitted if your business is existing and the decision maker for your request is very familiar with the business.*

- Organizational chart of responsibilities
- Resumes/special qualifications of key individuals (*see example*)
- Salaries/wages and benefits for employees
- Expected employment levels, special training and skill requirements
- Outside professionals/advisors who will support management

8) Financial History- *Purpose is to substantiate past financial management performance, demonstrate management abilities, and provide information that will help the lender evaluate potential risks and opportunities. Do not include personal financial information in the plan if it is to be shared with those who do not need to know.*

- Three years of current business and guarantors tax returns
- Three to five years of detailed business income & expense statements and balance sheets
- Year -to-date business income & expense statement and balance sheet
- Detailed information about business and guarantors liabilities (e.g. owed to, rate, payment amount, number of payments, collateral, date borrowed, balance owed)
- Current balance sheets of guarantors
- Past sales (dollars and quantities) history of important individual products
- List of current customers and sales volumes
- List of current accounts receivable with aging of amounts due
- List of current accounts payable with aging of amounts owed
- Identify extraordinary and non-business sales and expenses that may distort the true financial performance of the business
- Basic analysis of current liquidity, solvency, and profitability characteristics

9) Financial Structure & Forecasts- *Purpose is to substantiate profit estimates, demonstrate financial management knowledge, identify important assumptions, and quantify risk characteristics.*

- Desired capital sources (debt & equity) and terms of repayment
- Expected uses of capital (identify specific purchases)
- Identify assets not identified elsewhere that will be used as collateral and their estimated fair market value
- Identify people or businesses that will guarantee loans
- Prepare detailed income and expense statements and balance sheet forecasts for three to five years in the future. First one to two years should be month-by-month for start-up businesses and major projects. Show composition of sales by major product areas. Use footnotes to explain assumptions and estimates. Forecasts may have more and/or different information than displayed in financial statements prepared by accountants for year-end reporting purposes.
- Discuss risks (e.g. break-even sales levels under different scenarios)
- Basic analysis of liquidity, solvency, and profitability characteristics

(10) Testimonials & Miscellaneous- *Purpose is to provide additional information that supports your ability and willingness to fulfill obligations and achieve success.*

Income & Expense Statement Forecast Example

	Factor	Year 1	Year 2	Year 3	Year 4	Year 5
Sales <i>(it is best to display sales when they occur rather than when paid)</i>						
Item 1 <i>(you can display sales by item, item type, market, division, etc.)</i>						
Item 2						
Total Sales						
Annual Growth %			%	%	%	%
Cost of Goods Sold <i>(these costs vary directly with sales levels)</i>						
Item 1						
Item 2						
Production Wages						
Payroll Taxes						
Employee Benefits						
Production Supplies						
Production Utilities						
Equipment Depreciation						
Equipment Repairs						
Shipping						
Total Cost of Goods Sold						
Cost of Goods Sold %			%	%	%	%
Administrative/Overhead Expenses <i>(these expenses normally do not vary directly with sales levels)</i>						
Manager wages						
Administrative Wages						
Sales Wages						
Payroll Taxes						
Employee Benefits						
Rent						
Utilities						
Telephone						
Property Maintenance						
Insurance						
Advertising						
Professional Fees						
Office Supplies						
Equipment Maintenance						
Transportation						
Depreciation						
Taxes						
Bad Debts						
Total Administrative						
Administration %			%	%	%	%
Net Operating Income						
Net Operating %						

	Factor	Year 1	Year 2	Year 3	Year 4	Year 5
Other Income (Expenses) <i>(expenses & income based on capital structure and not by primary operations)</i>						
Interest Income						
Interest Expense <i>(this will be a negative number)</i>						
Donations						
Total Other						
Income Before Taxes						
Income %		%	%	%	%	%
Income Taxes						
Net Income						
Net Income %		%	%	%	%	%

Balance Sheet Forecast Example

	Factor	Start	1st Year	2nd Year	3rd Year	4th Year	5th Year
Current Assets <i>(assets that can be expected to change or can be liquidated within one year)</i>							
Cash							
Accounts Receivable							
Inventory							
Prepaid Expenses							
Total Current Assets							
Long Term Assets <i>(assets with an expected life of longer than one year)</i>							
Land							
Buildings							
Vehicles							
Equipment							
Furniture							
Accumulated Depreciation <i>(this is a negative number)</i>							
Total Long Term Assets							
Other Assets <i>(assets that are not involved in producing your product or service)</i>							
Deposits							
Goodwill							
Total Other Assets							
Total Assets							
Current Liabilities							
Accounts Payable <i>(liabilities that are expected to change or be repaid within one year)</i>							
Credit Line							
Short Term Loans							
Wages Payable							
Taxes Payable							
Total Current Liabilities							
Long Term Liabilities <i>(liabilities that have an expected repayment longer than one year)</i>							
Loan 1							
Loan 2							
Total Long Term Liabilities							
Owners Equity							
Contributed Capital							
Retained Earnings							
Current Period Income <i>(for each period this should equal the net income for the period)</i>							
Dividends Paid <i>(this will be a negative number)</i>							
Total Owners Equity							
Total Liabilities & Owners Equity							

Initial Sources & Uses of Funds Example

	Amount	Description/Comment
Uses of Funds		
Land		
Buildings		
Equipment		
Vehicles		
Inventory		
Supplies		
Advertising		
Professional Fees		
Construction Interest		
Cash/Working Capital		
Total Uses		
	Amount	Requested Terms/Comment
Sources of Funds		
Equipment Term Loan		
Mortgage Loan		
Credit Line		
Owner Loan		
Owner Investment/Equity		
Total Sources		

Cash Flow Statement Forecast Example

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income					
Depreciation					
Accounts Receivable Change <i>(increases are displayed as negative)</i>					
Inventory Change <i>(increases are displayed as negative)</i>					
Other Assets Change <i>(increases are displayed as negative)</i>					
Current Liabilities Change <i>(increases are displayed as positive)</i>					
Long Term Asset Purchases <i>(increases are displayed as negative)</i>					
Dividends Paid <i>(amounts paid are displayed as negative)</i>					
New Loan Proceeds <i>(amounts received are displayed as positive)</i>					
Loan Repayments <i>(principal amounts paid are displayed as negative)</i>					
New Investment From Owners <i>(amounts received are displayed as positive)</i>					
Cash Change <i>(add values in prior rows to display the net cash flows for the period)</i>					
Beginning Cash Balance					
Ending Cash Balance <i>(sum of cash change and beginning cash balance)</i>					

Personal Statement of Assets & Liabilities Example

Assets & Liabilities for _____ as of _____

ASSET	DESCRIPTION	FAIR MARKET VALUE
Cash	National Bank	\$1,000
Savings & Checking	National Bank	\$5,000
Mutual Fund	Fidelity Spartan	\$15,000
Retirement Accounts	IRA at National Bank	\$0
Cash Value Life Insurance	\$50,000 Acme Life policy	\$500
Motorcycle	1991 Honda Gold Wing	\$10,000
Car	2000 Mustang GT	\$15,000
Tools	woodworking equipment	\$1,000
Furniture & Household		\$20,000
Home	123 Shady Street	\$100,000
Acme Corporation	100% Shares	\$10,000
TOTAL		\$177,500

LIABILITY	OWED TO	START	STARTING BALANCE	TERMS	CURRENT BALANCE
Car Loan	National Bank	1/10/04	\$20,000	5%,60 months, \$283.07 month	\$10,000
Home Mortgage	National Bank	2/21/05	\$75,000	6%,20 years, \$716.43 month	\$72,000
MasterCard	National Bank	4/10/06	\$0	12 % interest	\$500
TOTAL					\$82,500

NET WORTH **\$260,000**

Notes:

1. Contingent liabilities (guarantees for repayment of others loans) should be identified.
2. Be prepared to explain who has liens & encumbrances on assets.
3. Be prepared to explain how fair market value of assets was determined.

Resume Example

RESUME OF: JOHN DOE

ADDRESS: 7898 State Route 95
Lima, Ohio 45804
Home Phone 419-222-2222
Cell Phone 419-333-3333

FAMILY: Donna Doe - wife
Ted Doe - son

EDUCATION:

The Ohio State University,1980. *Master of Arts in Accounting*,GPA of 4.0.
The Ohio State University,1974-1978. *Bachelor of Science in Business Administration*.
Major in Accounting. GPA of 4.0.

EXPERIENCE:

1/90 to Present Acme Corporation - Wapakoneta, *Accountant*. Prepared payroll and financial statements
9/80 to 1/90. Ohio Northern University - Ada, *Lecturer in Accounting*. Taught junior and senior level cost accounting

ACHIEVEMENTS/ACTIVITIES: Beta Gamma Sigma Honorary Fraternity-1978, Phi Alpha Kappa Honorary Fraternity-1978, Secretary and Chairman of Tigers Service Club-1995, Acme Employee of the Month-2000, Acme Bowling League-1995 to present