

# ***Building Your Business Plan***

## ***Preparing a Business Plan***

### ***Introduction***

Going into business for your self is a very big step. Careful planning on the front end can save you thousands of dollars down the road. It's true that entrepreneurs are risk takers. However, successful entrepreneurs are those who use the business planning process to minimize the risk!

A written business plan is the foundation of the planning process. It serves as the blueprint for developing the who?, what?, where?, when? and why? of a business venture. It requires research, careful thought, numerous revisions, and time. Entrepreneurs can spend several months developing the various components of their business plan.

The business plan is essential to the start-up and growth of a small business. The plan serves three primary functions. First of all, it is a feasibility study for your business idea. The business planning process allows you to evaluate, based on sound assumptions, whether or not your idea can be turned into a profitable business venture.

Secondly, a written business plan is necessary to obtain financing from a bank, private investor or the government. A potential lender or investor will read your plan to determine if you have researched the industry, the competition, your costs, and potential market. They will be looking to see if you will be able to pay back the loan or investment.

Thirdly, the business plan serves as a management tool. This road map helps you evaluate performance and make adjustments once you're in business. If properly utilized, it can alert you to potential problems before they become costly mistakes. It can also identify potential opportunities for growth.

### ***SBDC & MCBAP Services***

The Ohio Small Business Development Center (SBDC) and the Minority Contractors and Business Assistance Program (MCBAP) at the Toledo Regional Chamber of Commerce are ready to help. The SBDC is funded by the U.S. Small Business Administration, the Ohio Department of Development, and the Toledo Regional Chamber of Commerce. The SBDC/MCBAP certified business advisors will meet with you to go over the elements of a business plan, as well as answer any other questions you might have. The advisors will not write the business plan for you however, they will make specific recommendations and assist in the preparation of your financial statements if needed.

This publication was developed to assist you with the construction of your plan and hopefully simplify the business planning process for you. As you read through this publication,

keep in mind that it was written for start-up and existing businesses in many different industries. Some of the information may not pertain to your business idea.

## ***An Outline of a Business Plan***

A complete business plan should contain these basic elements in this general order:

**Cover Page**

**Table of Contents**

**Executive Summary**

**Business Concept**

**Description of Products and/or Services**

**Industry Characteristics and Environment**

**Operations**

**Ownership Structure**

**Management and Personnel**

**Marketing Plan**

\* Market Analysis

\* Competitive Analysis

\* Marketing Strategies

**Financial Information**

\* Start-Up Requirements

\* Projected Profit and Loss Statement

\* Projected Cash Flow Statement

\* Balance Sheet

**Supporting Documentation**

# *The Business Plan in Detail*

## *Cover Page*

The cover page should include vital information such as business name, owner's name, address, phone, fax, e-mail, as well as the date the plan was completed or last updated. You may also want to add a statement that the information contained in the business plan is proprietary and confidential. It is a good idea to number each copy of the business plan and keep track of who receives each copy.

The entire plan should be typed and professional looking. Be sure that it is proofed for spelling and grammatical errors before it is distributed.

## *Table of Contents*

A standard table of contents should be included, listing the topic or section and the corresponding page number so items can be easily referenced. The table of contents should only be one page in length.

## *Executive Summary*

This section should be written last and contain a clear and concise summary of the most important sections of the business plan. Keep in mind that this may be the first, and possibly only, section read by potential lenders or investors. As a general rule, the executive summary should not exceed two pages in length. The following items should be emphasized in the executive summary:

- \* Amount needed to finance start-up of the business;
- \* Description of business product and/or services;
- \* Estimate of market potential;
- \* Assessment of the competition;
- \* Your competitive advantage;
- \* Legal form of business;
- \* Location of business;
- \* Estimate of potential revenue.

*These items should be stated briefly in the executive summary and expanded on with supporting detail in later sections. Again, this section is written after the completion of the plan to summarize the business plan.*

## ***Business Concept***

In this section, write a simple, but complete statement of what kind of business you are in; what key products or services will be offered; why you believe there is a market for the business; how the business will be operated; and what future growth you anticipate.

If you are already in business this section should state the history of the company. It should include things like: legal form of the business and when it was formed; pertinent background information on the owners of the company; current customer base; yearly sales; assets acquired by the company; changes in location; and any expansion. This section should not only describe the company, but also address its past performance if applicable.

## ***Description of Products and/or Services***

In this section you should explain in detail about the products and/or services your company will offer to the customer. Do not assume that your name explains what your company does. You need to be specific about the products and/or services you provide.

You will want to explain the relative importance of each product line or service including design, styling, and trademark considerations. You will also need to discuss quality, product life, packaging, and durability issues.

This is also the section to address your competitive advantage by product or service. Discuss any research and development activities currently underway, or anything relating to technology that would give you a competitive advantage. Explain your distribution and sales systems. Any trademarks, copyrights or patents relative to your products should be included in the supporting documentation section.

## ***Industry Characteristics (The Research Phase)***

This section is the cornerstone of the business plan. It is the basis for the rest of the plan and should be one of the first sections completed. This is the section that requires many hours of research.

Industry information can be found from numerous sources including trade associations, business publications, government reports, as well as your own observations and experiences. The library is a great place to find publications that provide industry information. Some of these publications include: Market Profile Analysis, Robert Morris Associates (RMA), Standard & Poor's, and U.S. Industry and Trade Outlook. You can also use the internet as a source for some general industry information.

First, you need to determine what industry you are in and then research that industry by its Standard Industry Classification (SIC) code to gather information on the competition, industry standards, governmental regulations, etc. You may also want to reference the government's new NAICS or North American Industry Classification System.

Your research should give you an overall picture of the industry you plan to enter. The information you collect will also be used in other sections of the business plan, specifically when you prepare your projected financial statements. Research definitely is the least exciting and most time intense part of your business planning process. However, if you do not make the time investment in the research phase, your plan will not be thorough or well thought out and your business may suffer in the long run.

In this section you should include the following; a brief description of the industry in terms of sales volume and number and size of firms in the industry; how products/services are currently packaged and sold; average profit margins; and whether the industry as a whole is growing, mature, or declining. Also explain any cyclical or seasonal changes in the industry. If the industry supplies other industries you should also briefly describe the characteristics of the other industries and how changes may affect your industry.

In this section, you should also discuss any current or future trends in the industry. Define the growth of the industry in relation to the growth of the economy. You should also research and include in your plan any federal, state or local laws or regulations that pertain to your business.

## *Operations*

The first element you need to address in the operations section of the plan is your location. You should briefly describe the actual location of your business. If you're home-based say that and describe how it's feasible for your business. If you will occupy a commercial location, give the address of that location or proposed location.

You need to discuss the location in terms of square footage and the arrangement of office space, assembly space, storage space, etc. Will you buy or lease the building? Also include information on available parking, traffic counts, signage, etc. Describe what type of equipment or machinery will be required. How will you obtain the necessary equipment? Again, will you buy or lease? How often will equipment need to be repaired or replaced and what costs will be associated? Talk briefly about any future needs, as they relate to the business location and equipment (i.e. possible expansion plans).

Discuss your production or service operations by describing your manufacturing process or the method of performing your service. This information should include production or operating advantages, quality control procedures, purchasing procedures, production or service capacity, availability of raw materials, and other supplier considerations.

Be sure to discuss your actual hours of operation. (i.e. Monday – Friday, 9 a.m. to 5 p.m.) This will be important to establish whether or not your hours match the buying habits of your

market and if you are a service business, whether your hours of operation are sufficient to support the amount of sales you propose. Also, consider the standard hours of operation within your industry.

Discuss issues relating to inventory if it applies to your type of business. How much inventory will you need to support anticipated sales? Discuss the labor force that will be needed. Is there an available workforce? Discuss any training that may be required and the cost of such training. Will you be using sub-contractors for any of the work?

## ***Ownership Structure***

Your business plan needs to state the legal structure of your business. That is, are you a sole-proprietorship, partnership, limited partnership, s-corporation, c-corporation, or limited liability company? This is one of the most important decisions to make when starting a business. The legal structure of your business governs how the business will operate. Several factors must be considered when choosing a legal structure including taxes, potential exposure to liability, and the number of owners. For more information on the forms of ownership structure, contact the SBDC or an attorney. In most cases, you will need to hire an attorney to file the necessary paperwork.

Be sure to name the owners or partners of the business in your business plan and include the pertinent details of your structure. You should include a copy of the partnership agreement, articles of incorporation, articles of organization, etc., depending on your legal structure in the Supporting Documentation section of your business plan.

## ***Management and Personnel***

In this section, you will want to briefly describe your management style/philosophy, as well as provide all pertinent information in regards to employees, if applicable.

You should provide information on key management personnel including responsibilities and professional background. If you are starting small, this section may just be about you, the owner. Be sure to discuss all personnel compensation structure and include that amount in your monthly expenses on the financial statements. Include your professional resume as an attachment to your business plan.

Describe the employees, if any, you will need to operate your business. You may want to include specific position descriptions outlining the duties and responsibilities of each employee as an attachment to your business plan. If not, discuss each position briefly in this section. You will also need to include the actual employee costs in the financial section of the plan. Remember that employee costs include more than their hourly rate of pay. You need to compute taxes, worker's compensation, and any other benefits you plan to offer such as health insurance. Make sure that you are in compliance with all local, state, and federal employment regulations.

If you are in a manufacturing business, you'll need to discuss the number of shifts needed for production and labor union issues. Remember when you increase sales, you will need to increase production so you may need to add shifts which will also increase employee costs.

You should explain your employee compensation policy in greater detail including: how and when employees will be paid; the number of hours they will work; overtime considerations; and holiday pay. It is a good idea to develop an employee handbook that will outline these and other issues. This will save you a lot of hassle down the road. If you have developed such a handbook, include it as an attachment to the business plan and be sure to have your attorney review such a document.

You may also want to discuss how you plan to recruit, train, retain, and evaluate your employees. Give the recruitment issue some careful consideration because in many situations your business can not run without employees. Try to determine the pay and incentives offered by similar businesses. After all, you will be competing with them for employees as well as customers.

If you will not have employees at first, discuss when you think you may need to add employees as part of your growth strategy.

## ***Marketing Plan***

This is a very important section that is often overlooked by potential business owners. If you don't consider marketing issues such as product and pricing, location, advertising, selling, etc., you may not have a business at all. The marketing plan is an indication of your overall business potential.

Marketing is at the core of why you are in business. That is, to satisfy customer wants and needs. So, you must first explain what want or need your product or service is satisfying and for whom. Be as specific as you can. Are you selling to other businesses or to the consumer market?

You will want to begin this section by briefly explaining your product(s) and/or service(s). Specifically, explain your product in terms of pricing. If appropriate include a copy of your price list, menu, catalog, or related materials. You will need to elaborate on your pricing strategy. How does it compare to overall industry pricing and that of your competitors? You must also take into consideration all the costs associated with making or selling your products and services. The SBDC/MCBAP advisors can discuss with you issues that need to be considered to develop your pricing.

In this section, you need to include significant information about your target market. Who are your customers and why are they going to buy from you? This information should include customer needs, demographics, buying behaviors, etc. You need to clearly state your market niche and competitive advantage. You should also discuss any external factors that may affect your business such as industry changes, technological changes, and so on.

Next, you need to complete a competitive analysis for your business. This will tie in with your market niche and competitive advantage. You need to explain why customers will buy from you and not the competition. One thing to consider is that small, start-up companies usually can't compete on price with larger, more established businesses. However, a small business is usually able to compete on superior quality and/or customer service. You will want to include specific information about your competitors. Name your competitors and discuss their competitive advantage in the market.

One of the most important parts of your marketing plan should be your promotional efforts. This includes advertising, trade promotions (Discounts, coupons, sales), and public relations. You will probably want to focus mainly on advertising. Be sure to list the types of advertising media that you plan to use along with the associated costs. Advertising media includes television, radio, newspaper, magazines, trade journals, signage, yellow pages, and classified ads. Your target market will determine which forms of advertising media your business will need to implement. Again, the SBDC/MCBAP advisors can help you decide which advertising media will be most appropriate for you, given your customers and budget constraints. Be sure to include any costs associated with your advertising efforts in your financial statements.

In the marketing plan you should include some information about the distribution aspects of your business. If you are a service business, your distribution channel is direct. However, if you sell via catalog or over the Internet you will want to discuss issues such as shipping. If you are a retailer, you'll want to discuss your relationship with wholesalers, agents, brokers, etc. Basically, you need to describe how your product will reach the consumer.

Sales are another important issue to address in this section of your business plan. We will discuss sales again in the financial section of the plan. However, your sales goals should be realistic and obtainable while sufficient enough to cover your operating costs. You should have a monthly sales figure in mind that takes into consideration any seasonality your business may experience. For instance, in many retail businesses, sales increase dramatically during December. Your research efforts should have uncovered such trends that may affect your industry. Ideally, sales should increase over the first several months as a result of marketing efforts.

## ***Financial Information***

This is a crucial section of the business planning process. It is the numerical equivalent of the written text that has been discussed so far. It should be consistent with the text part of the business plan. In this section, you must detail not only what it will cost to "open the doors," but also what your monthly operating expenses and cash flow will be for your business. This can be a tricky process if you are a start-up business. Likewise, you must also project the amount of sales, by product, you expect to generate each month. Estimating these numbers requires research and educated guesses based on industry standards and your knowledge of your business.

Clearly state in your plan how much money you need to borrow, listing all potential funding sources, including any contributions by the owner. Also list what the capital will be used

for. Funds may be needed to purchase equipment, make leasehold improvements, or perhaps for working capital. You may not realize how much working capital may be needed until you have completed your projected financial statements.

As you work through the various aspects of the business, you should consider the costs associated with each element. For example, when creating the marketing plan you should be able to determine when and how much you'll spend for advertising. Be sure that the sales figures and expenses you include in the financial statements correspond to the items included in the text of the plan. Again, inconsistencies between the narrative part of the plan and the financial data might be an indication that your plan is not well thought out.

Once you have a good handle on your projected revenue or sales and monthly expenses, you can prepare the financial statements that have been mentioned throughout this document. You need to prepare projected or proforma financial statements including; a profit and loss statement, balance sheet, and statement of cash flows for the first three years of operation of your business. You will also need a detailed account of your start-up costs. If you are not familiar with these accounting items, simple statements have been included. Most often you will see these statements presented at year-end however, your statements should be presented on a monthly basis for the first three years.

An SBDC/MCBAP advisor or your accountant can be of assistance with developing these statements. There are also many software packages on the market that will assist in creating financial statements. The following pages contain a very brief description of each of the financial statements.

# *Projected Financial Statements in Detail*

## *Start-Up Requirements*

You must identify expenses that will be incurred in order to open for business. These are generally one-time expenses including: purchase of building or equipment; legal fees; supplies; leasehold improvements; rent deposits; etc. Monthly expenses like rent payments; telephone charges; or payroll will be shown on the profit and loss statement.

You must also estimate the amount of working capital that will be needed to operate the business during the period covered by the projections. Working capital refers to the financing needed to cover the time between when expenses are incurred and revenue is received. This is really a factor of the billing cycle, terms of sale, collection, and inventory policies. To begin with, you can estimate two or three months of projected expenses as the amount needed for working capital. You may have to adjust this number after you complete the projected cash flow statement.

You also need to consider any start-up inventory that will be needed. This amount will depend heavily on your estimated inventory turnover and the nature and seasonality of your industry and the perish ability of your products. You may be able to get a better estimate by analyzing the industry statistics you gathered in your research phase.

Once you have calculated your start-up costs and working capital requirements, you need to subtract the owner's contribution (the amount of capital you are putting in) to come up with the amount needed to be financed or borrowed. A sample breakdown of start-up requirements follows:

## *Sample Breakdown of Start-up Requirements*

<b>Fixed Assets</b>				Annual Lease Exp.	Purchase Cost
Computer Network					\$
Computer Software					\$
Computers					\$
Pain Booth					\$
Equipment					\$
Monitor					\$
Paint & Misc.					\$
Furniture & Fixtures (attach list FA-5)					\$
Point of Sale Register					\$
Telephone System					\$
Misc. Equipment					\$
Security System					\$
Goodwill					\$
Delivery Truck					\$
Signage					\$
Building					\$
Land					\$
Capital Improvements					\$
<b>Total Fixed Asset Additions</b>					\$
<b>Additional Assets</b>					
	#	cost/unit	=	Annual Lease Exp.	or Purchase Cost
Inventory/Supplies					\$
Inventory/Paper					\$
Lease Deposit					\$
Architect					\$
Deposits Utility					\$
Permits/License					\$
Pre Advertising					\$
Pre Pay Insurance					\$
Total Other (attach list)					\$
<b>Total Current Asset Additions</b>					\$

## *Sample Breakdown of Start-up Requirements (Cont'd)*

<b>Expenses</b>						
Attorney						\$
Paper Products						\$
Pain						\$
Office Supplies						\$
Labor Start Up						\$
Kitchen Supplies						\$
<b>Total Start-Up Expenses</b>						<b>\$</b>
<b>Initial Working Capital (cash) Requirements</b>						<b>\$</b>
<b>Total Start-up Requirements</b>						<b>\$</b>
Project Financing						
Term Loan			Term		Interest %	Principal
Bank Loan						
<b>Total Loan Requests</b>						
Line of Credit						
<b>Total Capital Contribution by Owner</b>						
<b>Total Project Financing Required</b>						

## *Profit and Loss Statement (Income Statement)*

This statement shows the income (revenue) of your business and expenses occurred in generating the income, and the resulting profit or loss. This information is typically shown on a monthly, quarterly, or yearly basis. For the purposes of a start-up business, you will want to show the projected income and expense on a **monthly** basis for the first three years of operation. The income statement shows all activities that affect profit and loss, including non-cash items like depreciation.

The most common revenue item is, of course, **sales**. You will need to project the amount of product in dollars that you expect to sell each month by major product line or by using an average price. It is helpful to break you sales down by product line or service to be used as a decision-making tool. By doing so, you'll be able to see which products or services sold as expected and, conversely, which ones did not. Other revenue items may include interest income, the sale of equipment, or rent payments to the company.

If you plan to sell on account, that is invoice customers for payment after the sale, you will want to show accounts receivable as a revenue item on the income statement, separate from cash sales. As a start-up business, it is best to get all sales in cash when possible. However, larger

commercial customers may wish to be invoiced. When deciding to whom to extend credit to you must carefully weigh the benefits of the sale against possible collection problems. Again, you must consider your billing cycle, terms of sale and collection policies.

The most obvious types of expenses are those directly related to purchasing or producing the product or service you sell. This is referred to on the income statement as the cost of goods sold. If you are manufacturing a product you must consider direct materials, direct labor, and overhead. If you are a retail business, **cost of goods sold** refers to what it costs you to buy the products from your wholesaler or distributor.

Other **operating expenses** include things such as rent, wages, advertising, insurance, and utilities. You should spend a significant amount of time considering these monthly expenses. Many people do not include all expenses or estimate them too low. This will cause significant problems down the road.

Another item to be considered is **depreciation**. This refers to an accounting item that represents the allocation of the cost of fixed assets (a balance sheet item) to expense over the estimated period of usage. It does not require an actual cash outlay but is shown on the **income statement** because it is related to profit.

Finally, expenses are deducted from the revenue items to determine the **net profit** or loss from the business. Generally the projected tax burden is then deducted from the profit. A good rule of thumb to consider when estimating revenue and expense is to estimate the revenue lower and the expenses might than anticipated. This gives you a conservative financial picture. A sample income statement follows:

## Sample Income Statement

Accounts	September	October	November
Sales	\$ 13,940	\$ 16,390	\$ 18,090
Full Time/part time wages	\$ 5,751	\$ 5,751	\$ 5,751
Payroll taxes	\$ 748	\$ 748	\$ 748
Food Cost	\$ 2,230	\$ 2,622	\$ 2,894
Cost of Sales	\$ 8,729	\$ 9,121	\$ 9,393
<b>Gross profit</b>	<b>\$ 5,211</b>	<b>\$ 7,269</b>	<b>\$ 8,697</b>
Accounting	\$ 250	\$ 250	\$ 250
Advertising	\$ 150	\$ 150	\$ 150
<b>Amort. other</b>	<b>\$ 111</b>	<b>\$ 111</b>	<b>\$ 111</b>
Amort of advertising	\$ 25	\$ 25	\$ 25
Automobile	\$ 54	\$ 54	\$ 54
Bank charges	\$ 50	\$ 50	\$ 50
Cablevision	\$ 113	\$ 113	\$ 113
Contract Labor/Special Events	\$ 625	\$ 625	\$ 625
Depreciation	\$ 850	\$ 850	\$ 850
Donations	\$ 20	\$ 20	\$ 20
Dues & Subscriptions	\$ 33	\$ 33	\$ 33
Electric	\$ 325	\$ 325	\$ 325
Gas	\$ 826	\$ 826	\$ 826
Insurance/Building & Business	\$ 767	\$ 767	\$ 767
Interest credit line	\$ 151	\$ 170	\$ 182
Interest on term debt	\$ 1,172	\$ 1,165	\$ 1,159
Replace Furniture & Equipment	\$ 154	\$ 154	\$ 154
Miscellaneous	\$ 29	\$ 29	\$ 29
Office supplies	\$ 10	\$ 10	\$ 100
other supplies	\$ 425	\$ 425	\$ 425
other supplies	\$ 20	\$ 20	\$ 20
Postage	\$ 333	\$ 333	\$ 333
Repairs & maintenance	\$ 192	\$ 192	\$ 192
Taxes property	\$ -	\$ -	\$ -
Telephone	\$ 250	\$ 250	\$ 250
Water/Sewer	\$ 183	\$ 183	\$ 183
Total department 4	\$ 7,208	\$ 7,220	\$ 7,225
<b>Net before tax</b>	<b>\$ (1,997)</b>	<b>\$ 49</b>	<b>\$ 1,472</b>
Income tax	\$ (559)	\$ 14	\$ 412
<b>Net Income/Loss</b>	<b>\$ (1,438)</b>	<b>\$ 35</b>	<b>\$ 1,060</b>
EBITDA	\$ 312	\$ 2,370	\$ 3,798

## *Cash Flow Statement*

The **cash flow statement** is just what it sounds like. It shows what happened to cash over a certain period of time. In other words, it shows the sources and uses of cash, similar to a checking account. This statement is very important because although the income statement shows profit, it includes the impact of changes in non-cash items like accounts receivable, accounts payable, and depreciation which can have significant impact of cash flow. If the accounts receivable amount is high, your income statement will show a profit, but until you collect on those accounts, you may not have enough cash to pay your bills.

A cash flow statement contains adjustments to the income statement for changes in accounts receivable, accounts payable, and non-cash items such as depreciation. In the start-up phase, you must prepare a projected statement to ensure that you will have enough cash to keep your business running. It is very important that you understand what this statement means to you as a business owner. A sample cash flow statement follows:

## Sample of Cash Flow Statement

Accounts	September	October	November
Collections	\$ 13,940	\$ 14,896	\$ 17,053
Full Time/Part Time Wages	\$ 5,571	\$ 5,751	\$ 5,571
Payroll taxes	\$ 748	\$ 748	\$ 748
Food Cost	\$ 2,230	\$ 2,622	\$ ,894
Subtotal	\$ 8,729	\$ 9,121	\$ 9,393
Accounting	\$ 250	\$ 250	\$ 250
Advertising	\$ 150	\$ 150	\$ 150
Automobile	\$ 54	\$ 54	\$ 54
Bank charges	\$ 50	\$ 50	\$ 50
Cablevision	\$ 113	\$ 113	\$ 113
Contract Labor/Special Events	\$ 625	\$ 625	\$ 625
Donations	\$ 20	\$ 20	\$ 20
Dues & subscriptions	\$ 33	\$ 33	\$ 33
Electric	\$ 325	\$ 325	\$ 325
Gas	\$ 826	\$ 826	\$ 826
Insurance/Building & Business	\$ 767	\$ 767	\$ 767
Interest credit line	\$ 122	\$ 151	\$ 170
Interest on term debt	\$ 1,727	\$ 1,165	\$ 1,159
Miscellaneous	\$ 154	\$ 154	\$ 154
Office supplies	\$ 29	\$ 29	\$ 29
Other supplies	\$ 100	\$ 100	\$ 10
Other supplies	\$ 425	\$ 425	\$ 425
Postage	\$ 20	\$ 20	\$ 20
Repairs & maintenance	\$ 333	\$ 333	\$ 333
Replace furniture & equipment	\$ 192	\$ 192	\$ 192
Taxes property	\$ -	\$ -	\$ -
Telephone	\$ 250	\$ 250	\$ 250
Water/Sewer	\$ 183	\$ 183	\$ 183
Total department 4	\$ 6,227	\$ 6,215	\$ 6,227
Total cash out	\$ 15,620	\$ 15,336	\$ 15,620
Loans from others	\$ (1,210)	\$ (1,210)	\$ (1,210)
Line of credit	\$ 4,086	\$ 2,654	\$ 1,684
Total other receipts	\$ 2,876	\$ 1,444	\$ 474
Estimated tax payments	\$ 897	\$ -	\$ 897
Term loan paid	\$ 997	\$ 1,003	\$ 1,010
Subtotal other payouts	\$ 1,894	\$ 1,003	\$ 1,907
Net cash change	\$ -	\$ -	\$ -
Beginning cash balance	\$ -	\$ -	\$ -
Ending cash	\$ -	\$ -	\$ -

## ***Balance Sheet***

The balance sheet will show your company's financial situation on a given day. It lists the assets (what your company owns) and your liabilities (what you owe). It also shows the owners' equity or the amount you have personally invested in your business.

Specifically, the balance sheet shows current assets, including cash and other items such as inventory and accounts receivable that can be converted to cash or used up within one year. Any property or equipment that the company owns is also shown on this statement. Depreciation, which is not an actual expense but the spreading of the cost of an asset over a period of its usage, is also included on the balance sheet.

The balance sheet also shows all liabilities of the company. These liabilities are generally broken into two categories: short and long-term, depending on when debts need to be paid. For example, credit card debt would be a short-term liability while your business loan from the bank would be considered a long-term.

The balance sheet is very important since it shows your company's ability to pay debts based on your assets. This indicates your company's ability to borrow. A bank will be particularly interested in this statement.

## Sample Balance Sheet

Accounts	September	October	November
Cash	0	0	0
Accounts receivable	8,503	9,998	11,035
Prepaid taxes	3,446	3,432	3,917
Prepaid expenses	7,607	7,471	7,335
<b>Total</b>	<b>19,556</b>	<b>20,901</b>	<b>22,287</b>
Property and Equipment	258,250	258,250	258,250
Accumulated depreciation	3,399	4,249	5,099
Net property	254,851	254,001	253,151
<b>Total Assets</b>	<b>274,407</b>	<b>274,902</b>	<b>275,438</b>
Accrued expenses	151	170	182
Due on credit line	21,319	23,973	25,657
Term debt payable	174,801	173,797	172,787
Loans from others	83,692	82,484	81,272
<b>Liabilities</b>	<b>279,963</b>	<b>280,422</b>	<b>279,898</b>
<b>Paid in capital</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
Net income	(6,555)	(6,520)	(5,460)
Ending Retain. Earnings	(6,555)	(6,520)	(5,460)
<b>Stakeholders Equity</b>	<b>(5,555)</b>	<b>(5,520)</b>	<b>(4,460)</b>
<b>Liabilities and Stakeholders Equity</b>	<b>274,407</b>	<b>274,902</b>	<b>275,438</b>

## ***Projected vs. Historical Financial Statements***

If you are an existing business or are purchasing a business, preparing the projected financial statements becomes much easier since you can use historical financial data as a basis for your projections. You may want to increase or decrease numbers by a certain percentage based on changes you foresee (i.e. increasing sales by 20% due to the new owner's connections in the industry or a more aggressive marketing plan).

Lastly, you are probably used to seeing financial statements for a specific period of time (usually annually or quarterly). These are generally historical statements. The difference in the projected statements you will be preparing is that they are done on a monthly basis for a period of three years. Since a start-up company has no history or performance record, a monthly statement will allow you to keep a close eye on how your business is performing and allow you to make changes quickly.

## ***Using Your Financial Statements***

There are several ways in which your projected financial statements will be used both internally and externally. First, you should analyze these statements to decide whether or not you should, or can, go into business. Secondly, a bank will analyze these statements to determine if you are a good credit risk. They will take your statements and prepare some ratios to compare with industry standards. Once you're in business, you will use your actual financial statements to track your business performance as compared to your projections. You will also use these statements to budget for future years. Once you're in business for a few years, you'll be able to use your statements to compare your performance over a period of time to predict trends. You'll also be able to compare your business to others in your industry.

## ***Supporting Documentation***

In this section of the business plan, you should include any supporting information that will strengthen the business plan. Keep in mind that you do not want to overwhelm your reader with extraneous paper. So, make sure that the information included in the section is relevant and easy-to-read.

Supporting documentation may include: tax returns (existing business); your resume; industry data; articles or studies relating to your industry; patents; detailed market studies; photo of your products; professional references; photo or rendering of location; employment contracts; leases; commitment letters from customers; and pertinent legal documents such as your ownership agreement and/or vendor's license.

## *Still Have Questions?*

You can meet with one of the SBDC/MCBAP certified business advisors to discuss your overall business idea. We also have information on sources of funding and other important issues. Best of all, our services are free of charge thanks to our funding partners; the U.S. Small Business Administration, Ohio Department of Development, and the Delphos Area Chamber of Commerce.

Good Luck with your business planning process! Contact the Business Development Services at the Delphos Area Chamber of Commerce at (419) 695-1771 if you have questions about how to start a business, would like to meet with one of our advisors.

*Remember the business owner who fails to plan, plans to fail!*