

Financial Plan

- ✓ Your lender wants to know if your business will be financially successful.
- ✓ Your spouse wants to know too!



Financial Plan

- ✓ In many cases, the financial plan is the most important part of your business plan.
- ✓ The financial plan is particularly important if you are proposing a major change or a new business.



Financial Plan

- ✓ What do you need to include in your business plan to communicate financial viability?



Financial Plan

- ✓ Financial viability is generally evaluated from three perspectives:
 - Solvency
 - Profitability
 - Liquidity



Financial Plan

- ✓ Solvency evaluates changes in net worth
 - growth in your retirement account
- ✓ Profitability monitor earnings
 - ability to generate income
- ✓ Liquidity estimates cash flow and debt repayment ability
 - paying the bills when due



Solvency

- ✓ Compares the assets invested (what you own) in the business with the sources of capital (liabilities – what you owe and your net worth)
- ✓ Requires an up to date balance sheet



Profitability

- ✓ Measures the earnings of the business
- ✓ Requires an accrual income statement
- ✓ Optionally use average net income from 3 years Schedule F tax forms



Liquidity

- ✓ Measures the ability of the business to generate cash to meet short term obligations
- ✓ Requires a cash flow statement, usually projected for next year or more



Financial Plan

- ✓ The tools used to communicate a business's financial situation are:
 - Balance sheet - solvency
 - Income statement - profitability
 - Cash flow plan – liquidity



Balance Sheet

- ✓ A snapshot of how funds are invested in a business (assets) and the financing methods used (liabilities and owner's equity) at a given point in time.



Balance Sheet

- ✓ Most producers have an existing balance sheet because lenders require one annually.
- ✓ If you need to develop or update your balance sheet you can use FINPACK or use the Guide worksheet.



Income Statement

- ✓ An income statement measures how much income the business is making in relation to the resources used to produce that income.



Income Statement

- ✓ Not all producers have an accrual income statement.
- ✓ Should develop one for your business plan.
- ✓ Can use FINPACK or the Guide worksheet.



Cash Flow Plan

- ✓ A cash flow plan is a projection of all sources and uses of cash during a specified planning period.
- ✓ It evaluates the business's ability to meet loan payments and other financial obligations on time.



Cash Flow Plan

- ✓ Most producers have an annual cash flow plan.
- ✓ If you need to develop or update your cash flow plan you can use FINPACK or use the Guide worksheet.



Financial Plan

- ✓ Include a balance sheet, income statement, and cash flow plan in your business plan.



Financial Plan

- ✓ A written description of the strengths of these three measurements of your financial projections should also be included.
- ✓ Also describe the assumptions you used to make your financial projections.



Your Financial Numbers

- ✓ Generating your financial statements from a program like FINPACK will make development of your business plan easier.
- ✓ FINPACK provides not only a balance sheet, income statement, and cash flow, but also financial ratios to help evaluate the meaning of your financial numbers.



Asset Management

- ✓ Your financial plan should also describe how you acquire and manage capital assets - purchase, lease, or custom hire.
- ✓ How efficiently are assets being used?



Asset Management

- ✓ An analysis of your investment in capital assets relative to the size of your business may be valuable as you plan the future of your business.
- ✓ Asset management is often the best indicator of future net worth growth.



Capital Required

- ✓ The final part of your financial plan should describe how much money you need to implement your business plan.
- ✓ Describe the sources of your financing.
- ✓ Present your financing request if you have one.



Resources

✓ Guide worksheets

- Balance sheet – worksheet 4.35
- Projected profitability - worksheet 4.33
- Cash flow – worksheet 4.34



Resources

- ✓ FINPACK Business Plan software
 - Balance sheet
 - Asset management
 - Projected profitability
 - Cash flow
 - Long range projections
 - Historical trends
 - Benchmarks
 - Capital required

