Business Planning

Pro Forma Financial Statements

Many new business owners feel overwhelmed with the idea of creating financial statements, but it really as simple as tracking the money that comes in and out of your business to monitor performance. Creating financial statements for your company is a necessary task that will help you know if your company is growing, shrinking or staying flat. Examining the numbers can also help you grow your revenue by highlighting areas for improvement.

There are three basic financial statements: Income Statement, Cashflow and Balance sheet. Each will be explained in the sections below. You may use the complimentary supplied spreadsheet template to create the financial statements or create your own.

The financials are broken into three parts to help you create basic estimates.

- Because your numbers will be forecasted, your estimates will never be 100% exact but should be as accurate as possible and create a plausible financial picture of your business.
- Use your best estimates for numbers. You may want to create sub-spread sheets for revenue and expense assumptions to help you.
- As you do more research and have actual costs from operations, you will be able to further improve the accuracy of your sales and cost assumptions.
- Each person has a different level of financial experience. Please book an appointment with us or your accountant if you would like extra help or have any questions.

Part 1: Income Statement

An Income statement (also known as P&L or profit and loss statement) shows whether your company is making or losing money during a specified period of time and is calculated by: Revenue – Expenses = Profit.

A forecasted financial statement (also sometimes referred to as projected or pro forma statements), means you are creating numbers that show how estimate the numbers will be in the future.

How to create your income statement (see the *Financial Statements* template)

- Enter your business name and time period.
- List how much you think you will sell in each month
    - o These numbers should be based on your sales forecast in the business plan.
- List how much you think your expenses will be for each month (some categories are given - can you think of others?)
- The excel formula calculates net income for you. (Revenue minus expenses = profit or loss)

Part 2: Cash Flow

The cash flow shows money coming in and money going out of your business during a specific period of time. It is calculated by: Beginning Cash Balance + Cash Inflows – Cash Outflows = Ending Cash Balance.

How to create your cash flow statement:

- Enter your business name and time period.
- In the first column (Start up Costs) list the value of things you put into your business and cash you spent on your business before you opened.
- In the *Cash In* section, list how much cash you will receive from revenue, loan proceeds and personal investment for each month. Note that if you are providing credit terms for your customers that a cash sale is when you collect from your customer.
- In the *Cash Out* section, list how much money you estimate you will be spending that month. (Some categories are given. Can you think of others?)
- If your bank balance is less than $0 then you must have a plan to deal with it. (eg. Invest more, have an operating loan, collect receivables, etc.).

Part 3: Balance Sheet

A Balance sheet is a snapshot of the company's assets (property, inventory, cash) versus its liabilities (loans, accounts payable, debt), and is calculated by: Assets = Liabilities + Shareholders' Equity.

How to create your balance sheet:

- Enter your business name and time period.
- Because a balance sheet is a snapshot of your company at a given time, create the balance sheet at the end of your first year period (example: your assets and liabilities as of December 31, 2011).
- Current Assets
  - Include the value of any assets that you will likely sell in the next year (accounts receivable, inventory - can you think of others?)
- Long term Assets
  - Include the value of any assets that you will not likely sell in the next year (property, vehicles, equipment, deposits and prepaid expenses - can you think of others?)
- Current Liabilities
  - Include the amount of your liabilities you anticipate paying out in the next year.
- Long term Liabilities
  - Include the value of any liabilities you are not likely to pay off in the next year.
- Owners Equity
  - This is the owner’s value in the company (not the amount invested). If you sold all your assets and paid off all your liabilities, this is the amount you would have left over.