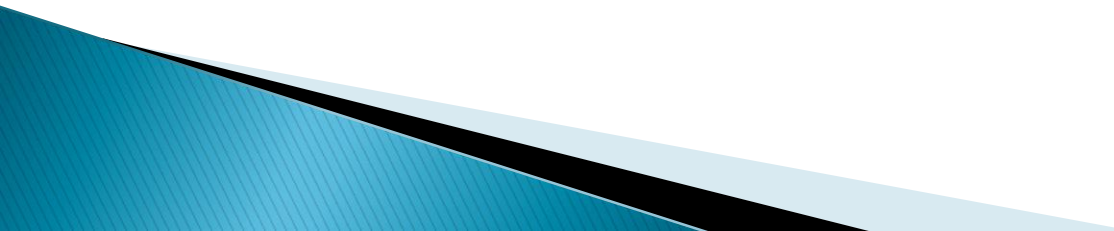


Financial Strategies

Entrepreneurship

Sales Estimates

- ▶ When projecting poop sales estimates for your business plans, you should show short range(the first two years) and medium range (first five years or so)
 - ▶ Before each table or chart, you should have a couple of sentences describing what they are looking at.
- 

Sales Estimates Continued

- ▶ Can be figured using multiple methods/formulas. You have to find the one that best fits the business you are running.
- ▶ Examples:
 - Big item sales, list how many items, and the price for each.
 - Small items can be figured out using the number of customers, purchases per customer, and average price paid by customer
- ▶ Following is an example for short term

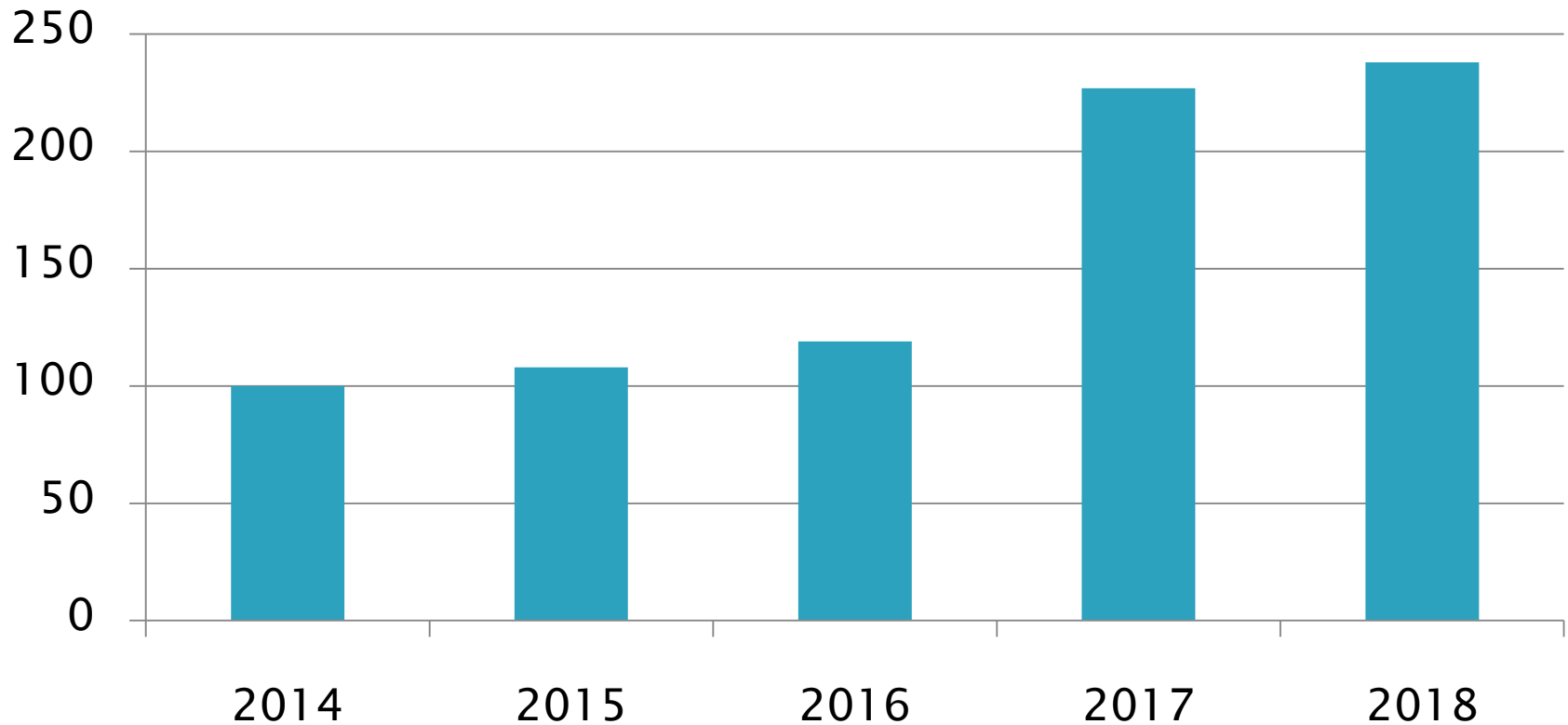
	YEAR 1		YEAR 2	
MONTH				
January				
February				
March				
April				
May				
June				
July				
August				
September				
October				
November				
December				
Annual Totals				

Mid Range – 5 to 6 years

- ▶ Don't have to be as detailed as month by month projections for short range goals
- ▶ Can be represented by a simple chart or graph
- ▶ Once again, figured using whichever method best fits your business.
- ▶ Following is an example of midrange estimates

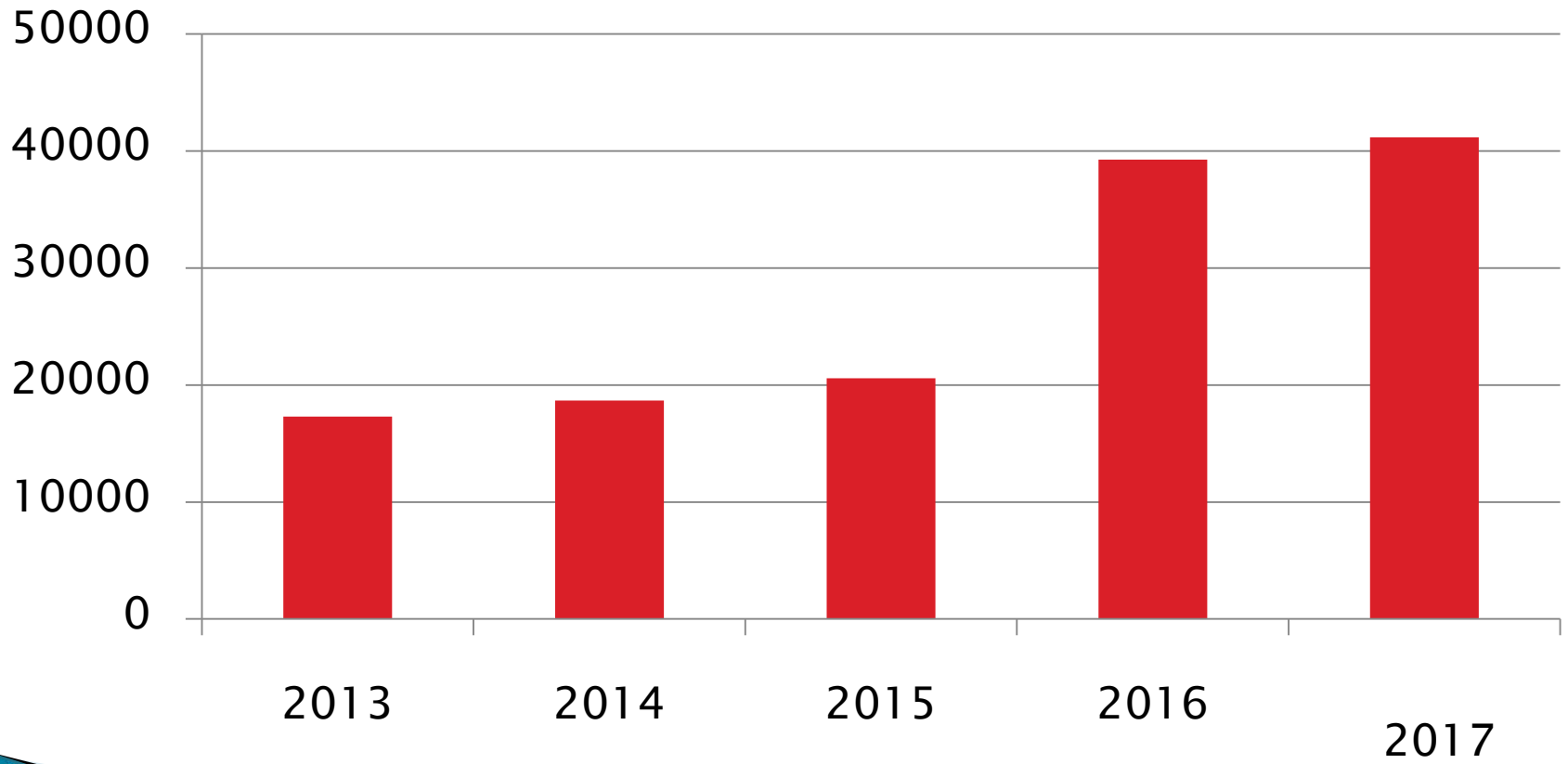
Example of Mid Range Projections

Number of Customers



Example of Mid Range Projections

Annual Revenue



Business Expenses

- ▶ The revenue listed in the previous projections: Is it profit?
- ▶ There are also expenses that should be reported in your business plans, as potential investors are going to want to know as well.
- ▶ There are two types of expenses:
 - Fixed Expenses
 - Variable Expenses

Fixed Expenses

- ▶ **Fixed expenses** are expenses that are not affected by the number of items a business produces. These remain the same no matter how much product is sold, etc.
- ▶ These should be listed on the business plan

I SAID YOU ROX

Insurance

Salaries

Advertising

Interest

Depreciation (next slide)

Utilities (Gas, Electric, Phone)

Rent

Other Fixed e**X**penses



Depreciation?

▶ What is **Depreciation** – a method of spreading the total cost of the equipment a business buys over the number of years it will be used.

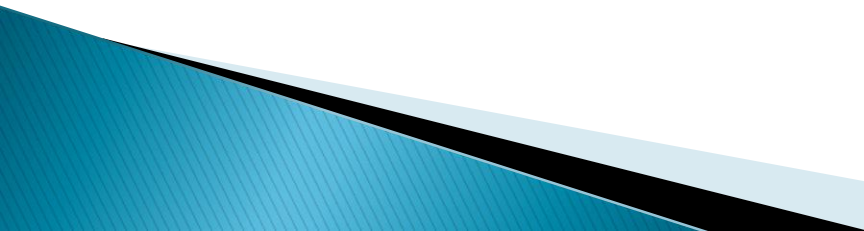
▶ Several methods

◦ Common one: Straight line depreciation

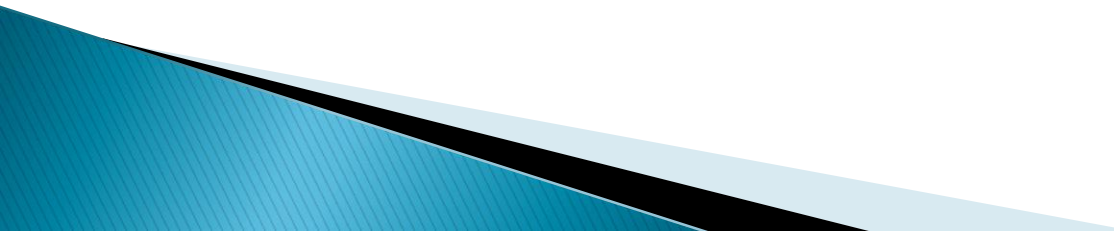
$\text{= COST} - \text{DISPOSAL VALUE} = \text{TOTAL DEPRECIATION}$

$\text{TOTAL DEP.} \div \text{YRS USED} = \text{DEP. EXPENSE PER YEAR}$

Fixed Expensed

- ▶ In the business plan, fixed expenses can be explained and listed in paragraph, and list form
 - ▶ Variable expenses are different
- 

Variable expenses

- ▶ **Variable expenses** are those that change as the number of products that your business produces changes.
 - ▶ These can be projected in the Business plan by showing the Economics of one unit. EOU
 - ▶ EOU is found by breaking down the variable expenses to what they cost per each unit sold.
- 

Economics of One Unit of Sale

- ▶ A **unit of sale** is what a customer actually buys from you. It's the amount of product (or service) you use to figure your operations and profit.

EOU

- ▶ One unit could be many different things
 - One hat
 - One box of 12 hats
 - One haircut (service)
 - One acre, or section, etc.

Selling price – Variable Expenses = Profit (or loss)

- ▶ This profit (or loss) is called the **contribution margin** – the amount per unit that a product contributes toward the company's profitability.
 - Does not account for fixed expenses

Economics of one Unit

UNIT OF SALE =

Selling price (per unit):

Variable Expenses

Cost of goods manufactured & sold

Material

Labor

Cost of goods sold

Other Variable Expenses

Commissions

Shipping and Handling

Other Variable Expenses

Total Variable Expenses

Contribution Margin

Manufacturing

Economics of One Unit: Manufacturing Business

One Unit of Sale = 1 Ring

Selling Price (per Unit):			\$ 40
Variable Expenses			
Cost of Goods Manufactured & Sold			
Materials	\$ 3		
Labor (\$15 per Hour)	<u>15</u>		
Cost of Goods Sold		\$ 18	
Other Variable Expenses			
Commissions	\$ 0		
Shipping & Handling	<u>1</u>		
Other Variable Expenses		<u>1</u>	
Total Variable Expenses			<u>19</u>
Contribution Margin (per Unit):			<u>\$ 21</u>

Wholesale

Economics of One Unit: Wholesale Business

One Unit of Sale = 12 Rings in a Carton

Selling Price (per Unit):			\$ 1,200
Variable Expenses			
Cost of Goods Sold			
Rings (12)	\$ 480		
Cost of Goods Sold		\$ 480	
Other Variable Expenses			
Commissions	\$ 0		
Shipping & Handling	<u>16</u>		
Other Variable Expenses		<u>16</u>	
Total Variable Expenses			<u>496</u>
Contribution Margin (per Unit):			<u>\$ 704</u>

Retail

Economics of One Unit: Retail Business

One Unit of Sale = 1 Ring

Selling Price (per Unit):			\$ 200
Variable Expenses			
Cost of Goods Sold			
Rings (1)	<u>\$ 100</u>		
Cost of Goods Sold		\$ 100	
Other Variable Expenses			
Commissions	\$ 30		
Shipping & Handling	<u> 7</u>		
Other Variable Expenses		<u> 37</u>	
Total Variable Expenses			<u> 137</u>
Contribution Margin (per Unit):			<u>\$ 63</u>

Multiple products

- ▶ Can do an EOU for each, to see what is profitable
- ▶ If similar, take an average.
- ▶ Example:

COSTS FOR CANDY BARS

Number	Brand	Cost
1	Chocolate Dee-Light	\$0.36
2	Almond Happiness	\$0.38
3	Fruit 'n' Joy	\$0.42
4	Junior Chocolate Roll	\$0.44



Multiple

Economics of One Unit: Business with More Than One Product

*One Unit of Sale =
1 Candy Bar (Average Cost)*

Selling Price (per Unit):			\$ 1.00
Variable Expenses			
Cost of Goods Sold			
Candy Bar (Average Cost)	<u>\$ 0.40</u>		
Cost of Goods Sold		\$ 0.40	
Other Variable Expenses			
Commissions	\$ 0		
Shipping & Handling	<u>0</u>		
Other Variable Expenses		<u>0</u>	
Total Variable Expenses			<u>0.40</u>
Contribution Margin (per Unit):			<u>\$ 0.60</u>

Service Business

Economics of One Unit: Service Business

One Unit of Sale = 1 Hair-Styling Job

Selling Price (per Unit):			\$ 55
Variable Expenses			
Cost of Services Sold			
Materials (Shampoo, etc.)	\$ 5		
Labor (\$30 per Hour)	<u>30</u>		
Cost of Services Sold		\$ 35	
Other Variable Expenses			
Commissions	\$ 0		
Shipping & Handling	<u>0</u>		
Other Variable Expenses		<u>0</u>	
Total Variable Expenses			<u>35</u>
Contribution Margin (per Unit):			<u>\$ 20</u>

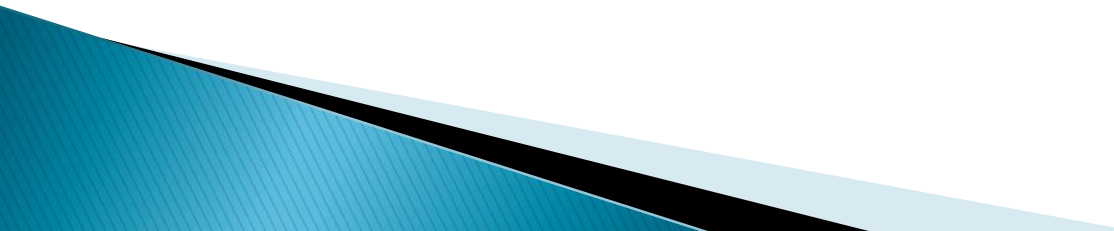
Financial Statements



Income Statement

- ▶ An **Income statement** is a financial document that summarizes a business's income and expenses over a given period of time.
 - Lists revenue,
 - Lists Variable Expenses – Cost of Goods sold
 - Figure Gross Profit
 - List Operating (fixed) expenses
 - Figure Pre-tax profit
 - List taxes
 - Net Profit

When should it be done?

- ▶ Monthly
 - ▶ Quarterly
 - ▶ Annually
- 

**Projected Annual Income Statement – End of Year One.
December 31, 2013**

REVENUE

Sales (250 Days @ \$300/Day)	<u>\$75,000</u>	
Total Revenue		\$75,000

COST OF GOODS SOLD

Materials (1000 Shirts@ \$6 each)	\$6,000	
Labor (\$10 per shirt)	\$10,000	
Cost of Goods/Services Sold		<u>\$16,000</u>

GROSS PROFIT

\$59,000

OPERATING EXPENSES

Advertising	\$1,750	
Depreciation		\$250
Insurance	\$1,500	
Telephone	\$1,000	
Total Operating Expenses	<u>\$4,500</u>	

PRE TAX PROFIT

\$54,500

Taxes (15%)		<u>\$8,175</u>
-------------	--	----------------

NET PROFIT

\$46,325

Income statement examples – retail businesses

RETAIL BUSINESS		
Matt's Hats		
Income Statement		
Month Ended August 31, 20--		
REVENUE		
Gross Sales	\$ 4,800	
Sales Returns	<u>400</u>	
Net Sales		\$ 4,400
COST OF GOODS SOLD		
Beginning Inventory	\$ 1,200	
Add: Purchases	<u>600</u>	
Total	\$ 1,800	
Less: Inventory, August 31	<u>480</u>	
Cost of Goods Sold		<u>1,320</u>
GROSS PROFIT		\$ 3,080
OPERATING EXPENSES		
Advertising	\$ 100	
Insurance	200	
Rent	150	
Telephone	100	
Utilities	<u>100</u>	
Total Expenses		<u>650</u>
PRE-TAX PROFIT		\$ 2,430
Taxes (15%)		365
NET PROFIT		<u>\$ 2,065</u>

Income Statement		
Lola's Custom Drapery		
Month Ended March 31, 20--		
REVENUE		
Gross Sales	\$ 85,456	
Sales Returns	1,200	
Net Sales		\$ 84,256
COST OF GOODS SOLD		
Materials	\$ 11,550	
Labor	<u>17,810</u>	
Total Cost of Goods Sold		<u>29,360</u>
GROSS PROFIT		\$ 54,896
OPERATING EXPENSES		
Advertising	\$ 1,100	
Commissions	8,000	
Depreciation	2,000	
Insurance	2,200	
Rent	4,000	
Salaries	12,000	
Utilities	4,000	
Total Expenses		<u>33,300</u>
PRE-TAX PROFIT		\$ 21,596
Taxes (15%)		<u>3,239</u>
NET PROFIT		<u>\$ 18,357</u>

Income Statement examples – manufacturing and service

MANUFACTURING BUSINESS

Ann's T-Shirts
Income Statement
Month Ended March 31, 20--

REVENUE		
Gross Sales	\$ 7,500	
Sales Returns	<u>30</u>	
Net Sales		\$ 7,470
COST OF GOODS MANUFACTURED AND SOLD		
Materials		
T-Shirts	\$ 1,494	
Inks/Paints	<u>249</u>	
Total Materials		\$ 1,743
Labor	<u>2,490</u>	
Cost of Goods Manufactured and Sold		<u>4,233</u>
GROSS PROFIT		\$ 3,237
OPERATING EXPENSES		
Advertising	\$ 100	
Insurance	200	
Interest	300	
Rent	400	
Salaries	400	
Telephone	<u>200</u>	
Total Expenses		<u>1,600</u>
PRE-TAX PROFIT		\$ 1,637
Taxes (15%)		246
NET PROFIT		<u>\$ 1,391</u>

SERVICE BUSINESS

Joan Barry Hair Styles
Income Statement
Month Ended September 30, 20--

REVENUE		
Sales		\$ 6,900
COST OF SERVICES SOLD		
Materials (Hair-Styling Supplies)	\$ 160	
Labor (160 Jobs)	<u>4,000</u>	
Cost of Goods Sold		<u>4,160</u>
GROSS PROFIT		\$ 2,740
OPERATING EXPENSES		
Advertising	\$ 400	
Insurance	200	
Interest	300	
Rent	200	
Telephone	200	
Utilities	<u>100</u>	
Total Expenses		<u>1,400</u>
PRE-TAX PROFIT		\$ 1,340
Taxes (15%)		201
NET PROFIT		<u>\$ 1,139</u>

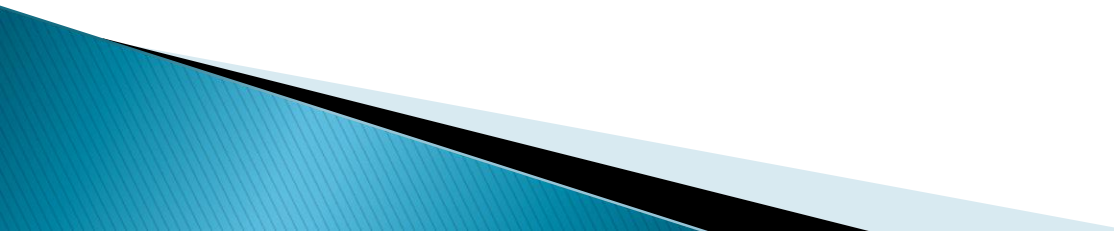
Balance Sheet

- ▶ Figure Assets, Liabilities, and owners equity
- ▶ List them all in the same manner as you did the income statement
- ▶ KEY TO REMEMBER
- ▶ Assets are always equal to liabilities and equity

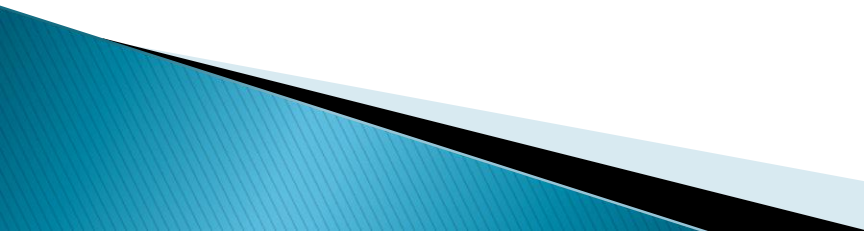
$ASSETS = LIABILITIES + OWNERS EQUITY$

$ASSETS - LIABILITIES = OWNERS EQUITY$

Assets and Liabilities

- ▶ Everything owned that has a monetary value is an asset
 - ▶ Anything outstanding that must be repaid is a liability
 - ▶ The owner's equity is the value of the business if all assets were sold, liabilities paid, the money that would be left
- 

Current vs. Long Term

- ▶ Assets that are short term and can be converted to cash within a year.
 - ▶ Long term assets take longer than a year (buildings, vehicles, equipment)
 - ▶ Current liabilities will be paid within a year: debts to suppliers for purchases on credit, bank loans, taxes
 - ▶ Long term: take longer than a year (mortgage)
- 

Projected Balance Sheet: Start of Business
January 1, 2013

ASSETS

Current Assets

Cash	\$5,000	
Inventory	<u>\$30,000</u>	
Total Current Assets		\$35,000

Long Term Assets

Building	\$95,000	
Equipment		\$10,000
Total Long Term Assets		\$105,000

Total Assets

\$140,000

LIABILITIES AND OWNERS EQUITY

Current Liabilities

Bank Loan	\$25,000	
Accounts Payable	\$30,000	
Sales Tax Payable	<u>\$5,000</u>	
Total Current Liabilities		\$60,000

Long Term Liabilities

Mortgage Payable	<u>\$35,000</u>	
Total Long Term Liabilities		<u>\$35,000</u>

Total Liabilities

\$95,000

Owner's Equity

John Doe, Capital	
<u>\$45,000</u>	

Total Liabilities and Owner's Equity

\$140,000

Balance Sheet Example

Matt's Hats	
Balance Sheet	
December 31, 20--	
ASSETS	
Current Assets	
Cash	\$ 25,000
Inventory	100,000
Accounts Receivable	<u>20,000</u>
Total Current Assets	\$ 145,000
Long-Term Assets	
Building	\$ 135,000
Equipment	<u>20,000</u>
Total Long-Term Assets	<u>\$ 155,000</u>
Total Assets	<u>\$ 300,000</u>
LIABILITIES & OWNER'S EQUITY	
Current Liabilities	
Bank Loans	\$ 25,000
Accounts Payable	40,000
Sales Tax Payable	<u>5,000</u>
Total Current Liabilities	\$ 70,000
Long-Term Liabilities	
Mortgage Payable	<u>70,000</u>
Total Long-Term Liabilities	<u>\$ 70,000</u>
Total Liabilities	\$ 140,000
Owner's Equity	
Matt Washington, Capital	<u>\$ 160,000</u>
Total Liabilities & Owner's Equity	<u>\$ 300,000</u>



Break even point–Include in BP

- ▶ How many units do I have to sell to break even?

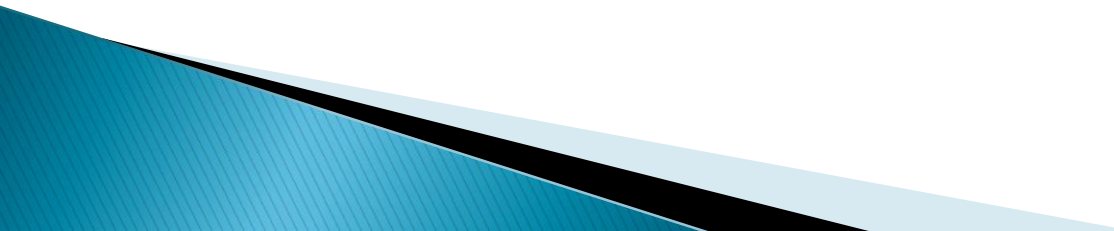
Remember that: (from the EOU)

Selling price per unit – cost of goods sold per unit = gross profit per unit

To figure break even point, use the gross profit per unit

Operating Expenses ÷ Gross profit per unit = Break even units

Financing Strategy

- ▶ Last thing to include in Financial Section
 - ▶ Explain your strategy for financing your business:
 - ▶ Example on following slide
- 

Example

- ▶ *Start Up Investment:* John Doe will invest \$5000 of his own money in the company and his parents will also invest \$5000. He will be getting a bank loan of \$40,000 dollars. This will be the beginning equity for the company.
- ▶ *Reserve for fixed Expenses:* The company will establish a reserve of \$9,000. This will cover the company's operating expenses for 3 months (Total Operating Expenses \div 12) \times 3. Thus, $(\$36,000 \div 12) \times 3 = \9000
- ▶ *Start Up Expenditures and Emergency Fund:* The company will use the remaining portion of the Startup investment (\$41,000) to cover startup expenses, which are expected to be approximately \$36,000, and to establish an emergency fund of \$5,000