

# Developing a Business Plan

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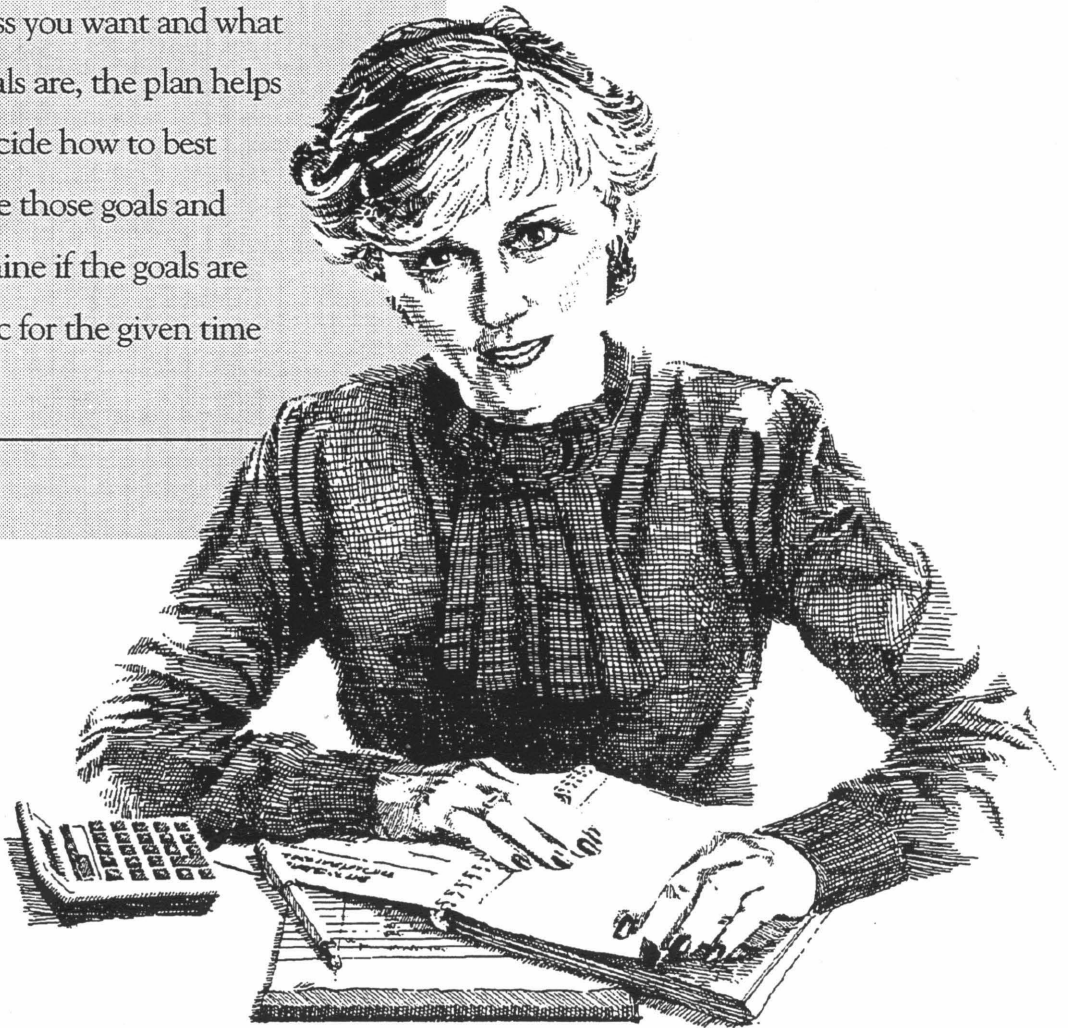


# Developing a Business Plan

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A *business plan* is like a road map for the business. Once you know what type of business you want and what the goals are, the plan helps you decide how to best achieve those goals and determine if the goals are realistic for the given time frame.

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Research by Dun and Bradstreet shows that over one-third of businesses fail or terminate within three years. The business plan is perhaps the best preventive medicine that you can prepare. It improves your chances of succeeding in business. It also improves your chances of obtaining financial capital. Financing sources realize that if you can develop a comprehensive business plan, you probably will be able to successfully operate the business.

Every business venture can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

- 1) Provide management development experience and practice in planning.
- 2) Serve as an operating guide as you manage your business. It will provide direction during the critical early stages of business development and operation. A well-developed plan will tell you what to do and how to do it. Without such a plan, business development will be haphazard.
- 3) Convince potential lenders and investors that you are in control of the business and that their money will be safe with you. A business plan makes it easier for others to understand the direction of your business.
- 4) Serve as a means of measuring progress and evaluating changes.

It is hoped that these purposes will convince you that you need a business plan. If they do not, ask any business person who failed if they prepared a business plan before starting their business.

A good business plan will take time to develop. Much will depend on what you have already done. The time, energy, and possibly money, that go into the development of the business plan can make the difference between success and failure. This makes the effort worthwhile.

A business plan forces you to think through and explore the feasibility of your idea. Will it operate at a profit? Will it meet your income goals/needs? Can it be implemented in the time frame you have in mind? Will it work?

While there are many guides available for preparing a business plan, there is no one best method. The most important aspect is to include the information that will serve the purposes of the plan. Examples of business plans generally may be seen at community college or university libraries and Small Business Development Centers (SBDC).



The following format may be used in writing your business plan.

## Outline for Writing a Business Plan

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**Title Page** — Include name of business, address, telephone number, principals, logo, and date.

**Cover letter** (for financing proposal)

**Executive Summary** — A one to two page summary of key points in the business plan. These include: business description, business goals and objectives, marketing strategy, management structure, and financial needs and projections.

**Table of Contents**

**History of Business** (if already in operation) — Include background of principals or origin of business, products or services offered, corporate structure, and business successes or experiences.

**Objectives and Goals of the Business**

**Description of Business** - Answers the question, "What needs are being met?"

**Market analysis**

**Management Structure**

**Personnel Needs**

**Financial Data**

Projected cash flow analyses

Projected income statements

Projected balance sheets

Breakeven charts

(If the business is currently in operation, include recent financial data).

**Appendices and other Supporting Documents** — Resumes, management charts, job descriptions for key personnel, personal financial statements for major stockholders (if applicable) and principals, historical financial information (if applicable), copies of leases, list of suppliers, list of major customers (if applicable), appraisals, Articles of Incorporation or Partnership Agreements, letters of recommendation, endorsement, intent, blueprints, photographs of product, etc., and applicable legal documents.

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## ELEMENTS OF A BUSINESS PLAN

The elements which need to be included in a well-developed business plan are:

- 1) a description of the business product or service;
- 2) goals of the business;
- 3) the market you plan to serve and how;
- 4) management skills and organizational structure;
- 5) personnel; and
- 6) financial data.

Each of these elements will be discussed in greater detail.



## **Step 1: Determining A Business Description**

People frequently attempt to implement an idea for a business too quickly. They start the business without a good understanding of what products or services they will offer or without focusing on why their business is unique. Before you can develop a business plan, it is necessary to write a concise and complete description of your business. By describing your business idea you will be able to focus your thoughts. The following activity may help you.

### **BUSINESS DESCRIPTION ACTIVITY**

What business are you in? What needs are you meeting? How would you describe your business to a potential customer or banker? Is it retail, wholesale, service provider, producer, or mail order? Is it a new venture or an existing one? Is it a seasonal business? Define your product or service in detail. This will help you identify exactly what you are and what you want to achieve.

1. Write a concise description of your business.
  
  
  
  
  
  
  
  
  
  
2. What products will you produce or sell?
  
  
  
  
  
  
  
  
  
  
3. What services will you offer?
  
  
  
  
  
  
  
  
  
  
4. How will you determine or set the price for your product or service?

## Step 2: Setting Goals

Goals are important for the growth and development of the business. They give order and structure to a business plan and set its limits. They help measure progress and give one a sense of accomplishment. Achievement is a motivator and will encourage you to do more work, set more goals, and reach greater success. As the old saying goes, "Nothing succeeds like success."

*Goals need to be realistic, relevant and specific, to both you and the business you described in Step 1.* Your goals need to be clear, concise statements that indicate specific outcomes over a period of time. For example: What are your goals for the business?

Nationwide sales in five years!  
Five employees in three years!  
To sell 2000 items the first year!

You need to set both long-term (5, 10, 15 years) and short-term (1, 2, 3, 6 month and one year) goals. These goals will help determine the direction for your business. The following activity will help you develop business goals.



GOAL-SETTING ACTIVITY

Set realistic and specific goals for each time frame listed below:

Time Table	Goals
3 months	
6 months	
1 year	
3 years	
5 years	

## PLAN OF ACTION ACTIVITY

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What types of information do you need to accomplish your goals? Where can you get this information? What decisions need to be made? What action is needed? How will you determine that the goal has been reached? The following activity will help you make a plan of action.

Information Needed	Sources of Information	Target Date to Complete
-----------------------	---------------------------	----------------------------

Decisions Needed	Target Date to Complete	Action Needed	Indicators of Success
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## Step 3: Analyzing The Market

The first thing you should ask yourself when you begin to analyze your market is whether this venture satisfies at least one of the following fundamental elements of success. If not, you probably do not have a viable business idea.

- 1) Does the product or service serve a presently unserved need? \_\_\_\_\_
- 2) Does the product or service serve an existing market in which demand exceeds supply? \_\_\_\_\_
- 3) Can the product or service effectively compete with existing businesses because of some "competitive advantage?" \_\_\_\_\_

Ideally your market analysis should be directed at determining which, if any, of these conditions exist.

The difference between a hobby and a business is PROFIT. Will you make a profit in your business? This depends on how well you analyze your market, competition, your location, and how well you can meet the needs of your market in producing your product/service. Determine who your potential customers are and where they are located. Describe characteristics such as population size and trends, age, sex, occupation, education, lifestyle, income, etc., of your various market segments. The key market characteristics may differ for each type of business. In the following activity, identify and describe the characteristics applicable to your potential customers.

To determine your market, conduct a simple or in-depth marketing study. Begin by defining your trading area—international, national, regional, or local. What is the present size and growth potential of the market? To collect the necessary information, look at demographic data in your city or county planner's office. Contact the Chamber of Commerce or Retail Merchant's Association for additional information. Use information from industry trade associations. Secure important data from the following:

Census of Retail Trades Published by US Department of Commerce, available from libraries that serve as government depositors.

Survey of Buying Power Data Service and Survey of Buying Power Forecasting Service Published by: Sales and Marketing Management, Bill Communications, Incorporated, 633 3rd Avenue, New York, NY 10017.

## MARKET CHARACTERISTICS ACTIVITY

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### *Measuring the size of your market*

Who is in your market? Who will your customers be?

Does your market include: consumers only, manufacturers, institutions, or government? \_\_\_\_\_

What geographical area will your business serve? \_\_\_\_\_

How many of your potential customers are in this geographical area? \_\_\_\_\_

What is the nature of the growth trend for this population in this geographical area? \_\_\_\_\_

Can your product or service appeal to the entire market? \_\_\_\_\_

What are projected sales over next year? \_\_\_\_\_

2 years? \_\_\_\_\_ 5 years? \_\_\_\_\_

### *Buyer Behavior*

What elements of your product or service are most important to your customers? Elements may include price, quality, service, durability, delivery time, etc. \_\_\_\_\_



## COMPETITION ACTIVITY

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You will need to know your competition. Determine which businesses are similar to yours. How do you compare with them? How is their business growing? Is there a market for another business? In the activity below, list four similar businesses which you consider to be your primary competition. These may be local, regional, state, national, or international businesses depending on the scope of your venture.

Name of businesses	Strengths	Weaknesses
-----------------------	-----------	------------

1.

2.

3.

4.

How do your customers rate your competitors on the important product/service elements you have listed?\_\_\_\_\_

What do you know about your competitors': pricing policies, promotion/sales strategies, sources of supply, costs of operations, profitability, level of sales, market share, and plans for expansion?

Have you heard of any new competitors?\_\_\_\_\_

Have any businesses similar to yours gone out of business recently?\_\_\_\_\_

What are the sales volume and market share of each competitor?

1. \_\_\_\_\_ 2. \_\_\_\_\_

3. \_\_\_\_\_ 4. \_\_\_\_\_

Are the sales and market shares of each competitor increasing, decreasing, or stable?

What are the profit levels of each competitor?

## BUSINESS LOCATION ACTIVITY

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Where is your business to be located? If it is a home-based business, the location is the home address. However, for business purposes, you may wish to have a post office box in a well-known area if your business is mail order. Consider the physical features of your location. Is it appropriate for your type of business? Will zoning allow your business to be operated in the planned location?

Where will your business be located?

List *advantages* of this location.

List *disadvantages* of this location.

How do you plan to compensate for location disadvantages and/or take advantage of your location?

## **Step 4: Promoting Your Product or Service**

Once you know your market you need to plan how to make your product or service known to it. There are three possible marketing channels. You may decide to use more than one. These channels include the following:

1. **Producer directly to consumer.** This is probably the easiest to use for the home-based business. Of course, it is the only option for service - oriented businesses.
2. **Producer to retailer to consumer.** You may sell directly to a retailer or place merchandise with them on consignment.
3. **Producer to wholesaler to retailer to consumer.** Some home-based business owners find that it is easier to have a sales representative to market than to do all the work themselves.

With any promotional approach you need to weigh costs versus the benefits. You may choose from the following means and include more than one method.

1. **Personal selling** through demonstration of product or service, open house, and special shows to community groups.
2. **Free publicity and advertising** through newspaper, radio, or television interviews, and involvement in community groups.
3. **Sales promotion** through free samples, coupons, and window displays.
4. **Word-of-mouth** promotion.
5. **Paid Advertising** through nonpersonal means such as direct mail, display ads in newspaper or magazines, yellow pages, brochures and business cards, radio, and TV.

Your promotion strategy needs to create a good business image and stimulate sales. Creating a good image will not show directly in sales, but will have a long-term effect on your business. An ad or promotion on a specific item is designed to sell that item. Ads which stimulate sales are run during your best selling periods.



## PROMOTION ACTIVITY

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- 1) Describe how you plan to promote your product or service.
  
  
  
  
  
  
  
  
  
  
- 2) If you plan to advertise, what media will you use (radio, television, yellow pages, etc.)  
Discuss why you consider these methods to be effective for your business and what market segment you expect to reach.

Media	Why Effective	Market segment to reach
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- 3) Discuss the content of your promotion. How will you inform the market as to what your product or service is? How will you *describe* it? Why is it attractive? How and what will you say about your business, address, business hours, and telephone number? What image do you want your advertising to project and why?

In designing your promotion strategy, remember that you are selling to satisfy someone's need. You may need to refer to your market analysis to examine and evaluate that need.

In addition to watching the advertising and promotion budget, you will need to develop sales goals. These should be recorded on a weekly basis. With set goals you will be able to judge whether your advertising and promotions are working. By making changes in your advertising you should see the effects in sales. This will then indicate the most efficient allocation of future advertising expenses.

To influence sales, determine what can be done through offering customer conveniences to influence who buys and how much they buy. You may wish to extend credit or use major credit cards, but determine how credit will be monitored and its impact on cash flow. Will you: offer delivery, free parking, accept telephone orders, or have extended hours of operation?

Now that you are convinced the potential exists, and have a plan to tap that potential, you must assess the practical feasibility of entering the marketplace.

## Step 5: Determining Sources of Supplies

First, you must locate sources of supplies for all goods and services the business will require for operation. This includes such things as inventory, janitorial services, operating supplies, insurance agents, accounting and legal services, and personnel. List sources of supplies in the following activity.

### SOURCES OF SUPPLIES ACTIVITY

Provider of supplies and address

What will be supplied?

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## **Step 6: Management and Organization Skills**

It is important to determine your business management and organizational skills that will help you to operate your business successfully. The following activity will assist you.

### **MANAGEMENT AND ORGANIZATIONAL SKILL ACTIVITY**

If you have several people on your team, cite the information below for each individual. Include personal financial statements and resumes in the supporting documents section of your business plan.

1. What are your business and management experiences?
2. What education have you had (formal and informal) that has contributed to your managerial abilities?
3. Are you physically mentally, and psychologically suited for the job?



4. Do you have direct operational and/or managerial experiences in this type of business?
  
  
  
  
  
  
  
  
  
  
5. Describe organizational structure (sole proprietorship, partnership or corporation) and include a brief description of who does what. (Include an organizational chart, if necessary, in the appendix).
  
  
  
  
  
  
  
  
  
  
6. What technical advisors or management resources will be available to your business (accountant, attorney, etc.)?

## **Step 7: Personnel**

This section of your business plan needs to emphasize the fact that you have the appropriate people and that they are properly organized to accomplish the plan. If you identify that there are weaknesses, state in your plan what you are doing to overcome these (taking a course, employing a consultant, etc.).

1. What are your forecasted personnel needs?
  
  
  
  
  
  
  
  
  
  
2. What additional skills will you need?
  
  
  
  
  
  
  
  
  
  
3. Will you be able to utilize part-time help to meet changing business volume?
  
  
  
  
  
  
  
  
  
  
4. Will you need to train employees, and at what cost?

## Step 8: Economic Analysis

Economic analysis is what most people think about when “feasibility study” is mentioned. The results of an economic analysis can be summarized on forms and balance sheets. The following questions provide basic data for an analysis. The forms included will help you organize your answers and estimate how workable your idea is financially.

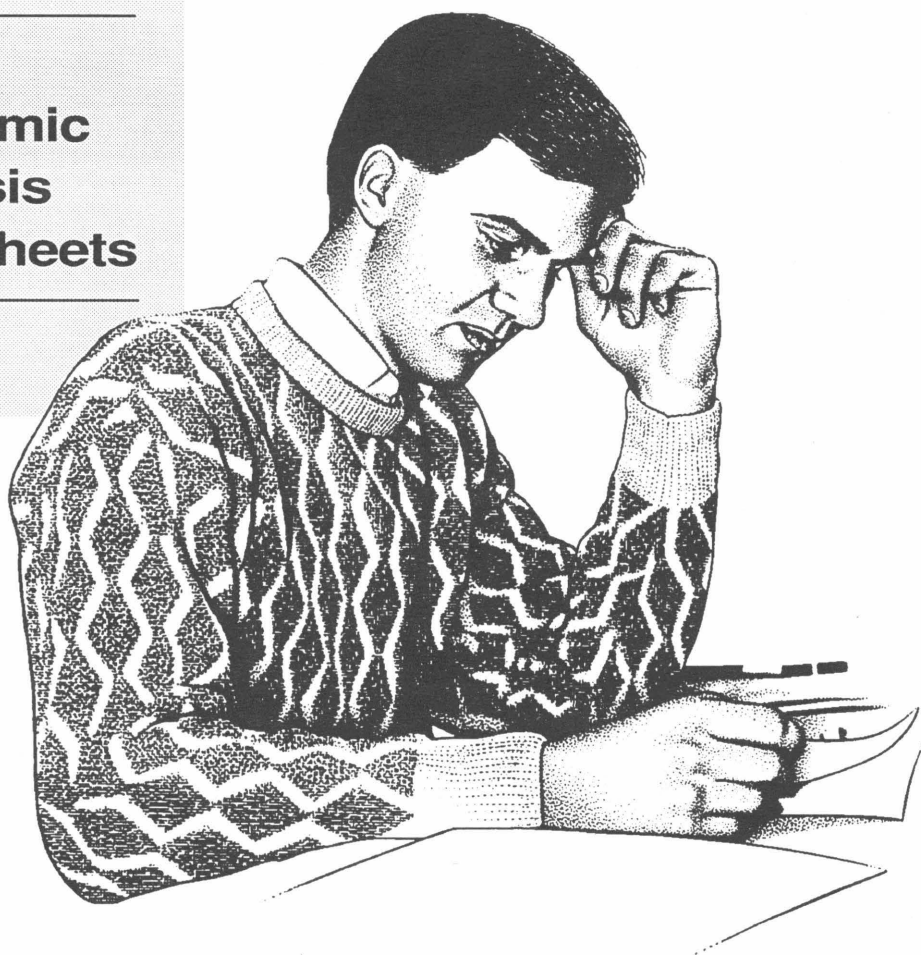
- What will it cost to start your business? Identify everything you will need to set up the business and estimate the cost of each item.
- What will it cost to operate your business after the initial start up? Remember to estimate all the costs of production and marketing.
- How much will you charge for your product or service? Know what your competitors charge and how sensitive your customers are to price. If your price is high, can you compete with quality, service, convenience or other non-price basis? Will your proposed price cover all costs and return a reasonable profit?
- Have you developed a monthly cash flow projection for the first year and an annual projection for two to four more years to estimate financial needs and profit potential?
- Have you considered potential credit sources?
- Have you considered the most economical size of operation? This involves balancing the capital investment necessary for different size operations, per unit production costs for various levels of output, marketing costs for different amounts sold, possible price declines due to greater volumes in the marketplace, and savings from purchasing larger amounts of inputs. Many businesses start with the smallest operation possible and expand as sales increase, while others start with excess capacity to allow for later growth. Which plan would best suit your business, your personal circumstances and your financial situation?
- Will the business provide an adequate return for everyone involved in it? Consider whether your return would be greater in alternative investments and if there are non-monetary returns that should be taken into account.
- How long will it take before the desired level of returns is obtained? Do you have the financial resources to wait?
- Have you tested the market by actually offering your product or service at the proposed price? What happened? Have you tried alternative ways of testing the market?
- Have you been realistic and conservative in all of your estimates? Be sure to construct alternative budgets, including a worst-case scenario.



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**Basic  
Economic  
Analysis  
Worksheets**

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## Basic Economic Analysis Worksheets\*

These worksheets are designed to help you examine the financial feasibility of your ideas and to project the effects of your decisions on the financial position of the business.

Worksheet 1 will help you estimate the return needed from the business to meet your personal expenses.

The other worksheets look at the business itself. First, answer the questions on Worksheets 2 and 3. This information is used to complete the other worksheets. Initially, rough estimates may be used; later you can come back with actual price quotes or negotiated prices to fine tune your analysis.

The questions on Worksheet 3 are numbered Q1 through Q30. These numbers are the keys for the other worksheets. For instance, the line for owner's salary on Worksheet 5, the pro-forma income statement, has Q4 next to it. The number from question 4 (Q4) on Worksheet 3 is written here.

Some items are added together, subtracted, multiplied or divided. These operations are performed on the referenced numbers, and the result is written in the space provided. For instance, the line for cost of goods sold on Worksheet 5 has "Q1/12 X Q2" next to it. Divide the number from question 1 on Worksheet 3 by 12, multiply your answer by the number from question 2 on Worksheet 3 and write the result in the space provided on Worksheet 5. The appendix includes an example which may help you understand how to use these forms.

Add items to the worksheets as needed in order to fully describe your business. Enter a zero if an item does not apply.

Make your estimates realistic and conservative. If the results are not acceptable, look for ways to change your business plan. Changing numbers just to increase returns or going ahead with the business in the hope that things will somehow work out are mistakes that should never be made. Unfortunately, things rarely "work out somehow." If the idea will not work on paper, it probably will not work in practice either.

The following forms are also included:

- \* Personal Financial Statement
- \* Business Financial Statement
- \* Break-even analysis

\*Adapted from SBA publications and the Delaware SBDC Planning Workbook.

## WORKSHEET 1

### OWNER'S LIVING EXPENSES

Complete this list of expenses based on an average month. Add or subtract items to fit your own lifestyle and financial obligations.

Rent or mortgage	_____
Car loans	_____
Other loans	_____
Life insurance premiums	_____
Other insurance premiums	_____
Utilities	_____
Home repairs, maintenance	_____
Food, at home and away	_____
Auto repairs, gas, parking	_____
Travel	_____
Medical and dental care	_____
Education	_____
Clothing	_____
Newspapers, magazines	_____
Savings	_____
Spending money, allowances	_____
Taxes	_____
Other	_____
<b>TOTAL PERSONAL EXPENSES</b>	-----
 Less Income From Other Sources (if any)	 _____
 <b>PERSONAL EXPENSES TO BE COVERED BY THE BUSINESS (Q4)</b>	 -----

## WORKSHEET 2

### START-UP COSTS

This worksheet should include all the expenses you will pay in opening your business. This list is a sample; add or subtract items to fit your situation. Use the totals in completing Worksheet 3.

Initial Inventory (Q3)	_____
Rent Deposit (Q6)	_____
Furniture and Fixtures:	
Desks and Chairs	_____
Filing Cabinets	_____
Office Machines	_____
Light Fixtures	_____
Counters, Shelves	_____
Other	_____
Total (Q7)	_____
Tools and Equipment (Q9)	_____
Supplies and Materials:	
Stationery	_____
Business Forms	_____
Cash Register	_____
Pens, Pencils, etc.	_____
Other	_____
Total (Q12)	_____
Utility Deposits (Q16)	_____
Telephone Deposit (Q18)	_____
Advertising and Promotion:	
Business Cards	_____
Ads, Posters, etc.	_____
Business Logo Design	_____
Exterior Signs	_____
Other	_____
Total (Q20)	_____

Site Preparation:

Remodeling

\_\_\_\_\_

Decorating

\_\_\_\_\_

Repairs

\_\_\_\_\_

Other

\_\_\_\_\_

Total (Q22)

\_\_\_\_\_

Organization Costs:

Accounting Fees

\_\_\_\_\_

Legal Fees

\_\_\_\_\_

Other

\_\_\_\_\_

Total (Q24)

\_\_\_\_\_

Licenses and Permits (Q26)

\_\_\_\_\_

[In addition, some business advisors recommend that enough cash for at least three months' living expenses (Worksheet 1) and operating costs (Worksheet 4) be set aside and not used for any other purpose.]

### WORKSHEET 3

Answer these questions with realistic, conservative estimates. Use the best information available. Initial, rough estimates should be changed as you get actual price quotes, negotiate contracts and/or gain experience.

1. Estimate your sales in dollars for the first year of operation. \_\_\_\_\_ Q 1
2. Estimate your cost of merchandise or materials as a ratio or proportion of sales (for example, cost of materials \$50/total sales \$100 = 0.5). \_\_\_\_\_ Q 2
3. Estimate the cost of the inventory needed to start the business.(Worksheet 2) \_\_\_\_\_ Q 3
4. Enter your monthly personal expenses to be covered by the business (Worksheet 1). \_\_\_\_\_ Q 4
5. Estimate your monthly rent or mortgage payment. \_\_\_\_\_ Q 5
6. Estimate your rent deposit (Worksheet 2). \_\_\_\_\_ Q 6
7. Estimate the cost of all furniture and fixtures you will buy (Worksheet 2). \_\_\_\_\_ Q 7
8. What is the average useful life (in months) of these furnishings and fixtures? \_\_\_\_\_ Q 8
9. Estimate the cost of all equipment you will buy (Worksheet 2). \_\_\_\_\_ Q 9
10. What is the average useful life (in months) of this equipment? \_\_\_\_\_ Q10
11. Estimate the total monthly wages you will pay to your employees. \_\_\_\_\_ Q11
12. Estimate the total cost of the supplies and materials you will need to start your business (Worksheet 2). \_\_\_\_\_ Q12
13. Estimate the average monthly cost of supplies and materials you will need to operate. \_\_\_\_\_ Q13



14. Estimate the proportion of sales that will be on credit (for example, credit sales \$25/total sales \$100 = 0.25; enter zero if you will not make credit sales). \_\_\_\_\_ Q14
15. Estimate your monthly utility bill. \_\_\_\_\_ Q15
16. Estimate utility deposits (Worksheet 2). \_\_\_\_\_ Q16
17. Estimate your monthly telephone bill. \_\_\_\_\_ Q17
18. Estimate your telephone deposit (Worksheet 2). \_\_\_\_\_ Q18
19. Estimate your monthly insurance costs. \_\_\_\_\_ Q19
20. Estimate the advertising and promotion costs for the initial opening of your business (Worksheet 2). \_\_\_\_\_ Q20
21. Estimate your monthly advertising costs after the initial opening. \_\_\_\_\_ Q21
22. Estimate your expenses to get the business location ready for opening (Worksheet 2). \_\_\_\_\_ Q22
23. Estimate your average monthly costs of maintenance and upkeep after opening. \_\_\_\_\_ Q23
24. Estimate attorney and accounting fees to start the business (Worksheet 2). \_\_\_\_\_ Q24
25. Estimate the average monthly attorney and accounting fees after the business opens. \_\_\_\_\_ Q25
26. Estimate the cost of business licenses and permits (Worksheet 2). \_\_\_\_\_ Q26
27. Estimate your monthly debt repayment, both principal and interest (enter zero if you will not borrow money). \_\_\_\_\_ Q27
28. Estimate the monthly cost of other expense(s). \_\_\_\_\_ Q28
29. How much cash will you invest in the business? \_\_\_\_\_ Q29
30. What is the minimum amount of cash that you want on hand at the beginning of each month for unexpected expenses? \_\_\_\_\_ Q30

## WORKSHEET 4

### PRO-FORMA MONTHLY CASH FLOW STATEMENT

	START	MONTHLY
Cash Sales	0	$Q1/12 - (Q1/12 \times Q14)$
Cash on Hand	Q30	Last month's ending balance
Other Income	0	As received
Accounts Receivable	0	$Q14 \times \text{last month's sales}$
Total Cash Available	Q30	Add above items
<b>CASH PAID OUT:</b>		
Inventory	Q3	As needed
Furniture & Fixtures	Q7	As needed
Equipment	Q9	As needed
Owner's Salary	Q4	Q4
Employee Wages	0	Q11
Payroll Taxes	0	$Q4 + Q11 \times 0.15$
Rent	$Q6 + Q5$	Q5
Utilities	Q16	Q15
Telephone	Q18	Q17
Supplies	Q12	Q13
Insurance	Q19	Q19 (assumes monthly premium payments)
Advertising	Q20	Q21
Maintenance	Q22	Q23
Legal & Accounting	Q24	Q25
Licenses	Q26	As needed
Other	Q28	Q28
Taxes	0	As needed
Interest	0	$Q27 \times 0.75$
Principal	0	$Q27 \times 0.25$
<b>TOTAL CASH PAID OUT (Total above items)</b>		
<b>CASH POSITION (Cash Available - Cash Paid Out)</b>		
Additional Borrowings	0	as needed to make ending balance = Q30
Ending Bank Balance	Q30	Q30 (at least)

**MONTHS**

[illegible]

## WORKSHEET 5

### PRO-FORMA MONTHLY INCOME STATEMENT

	Month ***
SALES = Q1/12 (adjust for seasonality as needed)	_____
COST OF GOODS SOLD = Q1/12 X Q2	_____
GROSS MARGIN = Sales - Cost of Goods Sold	_____
OPERATING EXPENSES:	
Owner's Salary = Q4	_____
Employee Wages = Q11	_____
Payroll Taxes = Q4 + Q11 X 0.15*	_____
Rent = Q5	_____
Utilities = Q15	_____
Telephone = Q17	_____
Supplies = Q13	_____
Insurance = Q19	_____
Advertising = Q21	_____
Maintenance = Q23	_____
Legal/Accounting Fees = Q25	_____
Licenses = Q26	_____
Other = Q28	_____
Interest = Q27 X 0.75**	_____
Depreciation = Q7/Q8 + Q9/Q10	_____
TOTAL OPERATING EXPENSES (Add all operating expenses)	_____
NET PROFIT (LOSS) BEFORE INCOME TAXES = (Gross Margin - Total Operating Expenses)	_____

\*The rule of thumb that payroll taxes are about 15% of total payroll is used here. Your estimate or actual payment experience should be substituted if different.

\*\*The rule of thumb that interest is approximately 75% of a debt payment is used here. Again, your estimate or actual payment history should be used if different.

\*\*\*Should continue through twelve months.

## WORKSHEET 6

### Pro-Forma Balance Sheet: Start-up

#### ASSETS

##### Current Assets:

Cash =	Q29	_____
Accounts Receivable =	0	_____
Inventory =	Q3	_____
Prepaid Expenses =	Q5 + Q19 + Q20	_____
Supplies =	Q12	_____

Total Current Assets \_\_\_\_\_

##### Fixed Assets:

Furniture & Fixtures =	Q7	_____
Equipment =	Q9	_____
Improvements =	Q22	_____

Total Fixed Assets \_\_\_\_\_

##### Other Assets:

Deposits =	Q6 + Q16 + Q18	_____
Legal & Acctg. Fees =	Q24	_____
Licenses =	Q26	_____

Total Other Assets \_\_\_\_\_

TOTAL ASSETS (Add Total Current, Fixed and Other Assets) \_\_\_\_\_

#### LIABILITIES

Current Liabilities	_____
Long-Term Liabil. (Total Assets-Equity)	_____
Equity Q29	_____

TOTAL LIABILITIES AND EQUITY \_\_\_\_\_  
(long-term liabilities and equity  
should = total assets)

# **WORKSHEET 7** **Pro-Forma Balance Sheet: Year 1**

## **ASSETS**

### **Current Assets:**

Cash =	Q29	_____
Accounts Receivable =	Q1XQ14	_____
Inventory =	Q3	_____
Prepaid Expenses =	Q5 + Q19 + Q20	_____
Supplies =	Q12	_____

Total Current Assets \_\_\_\_\_

### **Fixed Assets:**

Furniture & Fixtures =	Q7-(Q7/Q8)	_____
(less depreciation)		
Equipment =	Q9-(Q9/Q10)	_____
(less depreciation)		
Improvements =	Q22-(Q22/5)*	_____
(less depreciation)		

Total Fixed Assets \_\_\_\_\_

### **Other Assets:**

Deposits =	Q6 + Q16 + Q18	_____
Legal & Acctg. Fees =	Q24	_____
Licenses =	Q26	_____

Total Other Assets \_\_\_\_\_

**TOTAL ASSETS (Add Total Current, Fixed and Other Assets)** \_\_\_\_\_

## **LIABILITIES**

Current Liabilities	_____
(additional borrowings from last right	
column of Worksheet 5)	
Long-Term Liabil. (debt or parts of	_____
debt not due for payment within a year)	
Equity Q29 + Retained Earnings	_____

**TOTAL LIABILITIES AND EQUITY** \_\_\_\_\_

(long-term liabilities and equity  
should = total assets)

\*A five-year life for improvements is used as a rule of thumb.

# Personal financial statement

## Net Worth Statement

### Assets

(Immediately available)

Cash on hand \$ \_\_\_\_\_

Savings \_\_\_\_\_

Securities \_\_\_\_\_

Other \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

### Intermediate-term assets

(Could be sold, over time)

Household \_\_\_\_\_

Automotive \_\_\_\_\_

CDs \_\_\_\_\_

Other \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

### Long-term assets

IRA \_\_\_\_\_

Real estate \_\_\_\_\_

Stocks, bonds \_\_\_\_\_

Other equity \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

**Total assets** \$ \_\_\_\_\_

**Net worth:** \_\_\_\_\_ (Assets minus liabilities)

### Liabilities

(Payable within this year)

Current bills \$ \_\_\_\_\_

Mortgage pmnts \_\_\_\_\_

Loan payments \_\_\_\_\_

Other \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

### Intermediate-term liabilities

(Payable in the next 2-7 years)

Loans \_\_\_\_\_

Payments \_\_\_\_\_

Other \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

### Long-term liabilities

Mortgages \_\_\_\_\_

Other \_\_\_\_\_

Subtotal \$ \_\_\_\_\_

**Total liabilities** \$ \_\_\_\_\_





# Business financial statement

## Balance Sheet

### Assets

#### Current assets

Cash on hand	\$ _____
Accounts rec.	_____
Inventory	_____
Temporary investments	_____
Prepaid Exp.	_____
Other _____	_____
<b>Subtotal</b>	<b>\$ _____</b>

#### Long-term assets

(List)

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
<b>Total</b>	<b>\$ _____</b>

**Fixed assets** (Net book value cost, minus depreciation)

Real Estate	\$ _____
Equipment	_____
Other	_____

<b>Total assets</b>	<b>\$ _____</b>
---------------------	-----------------

### Equity

Total owners equity: \$ \_\_\_\_\_

### Liabilities

#### Current liabilities

Accounts pay.	\$ _____
Short-term notes	_____
Current due/long-term notes	_____
Interest payable	_____
Taxes payable	_____
Accrued payroll	_____
<b>Subtotal</b>	<b>\$ _____</b>

#### Long-term liabilities

(List)

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
<b>Total</b>	<b>\$ _____</b>

<b>Total liabilities</b>	<b>\$ _____</b>
--------------------------	-----------------



## Break-even analysis

Break-even point (in sales dollars)

Total Fixed Costs \$ \_\_\_\_\_

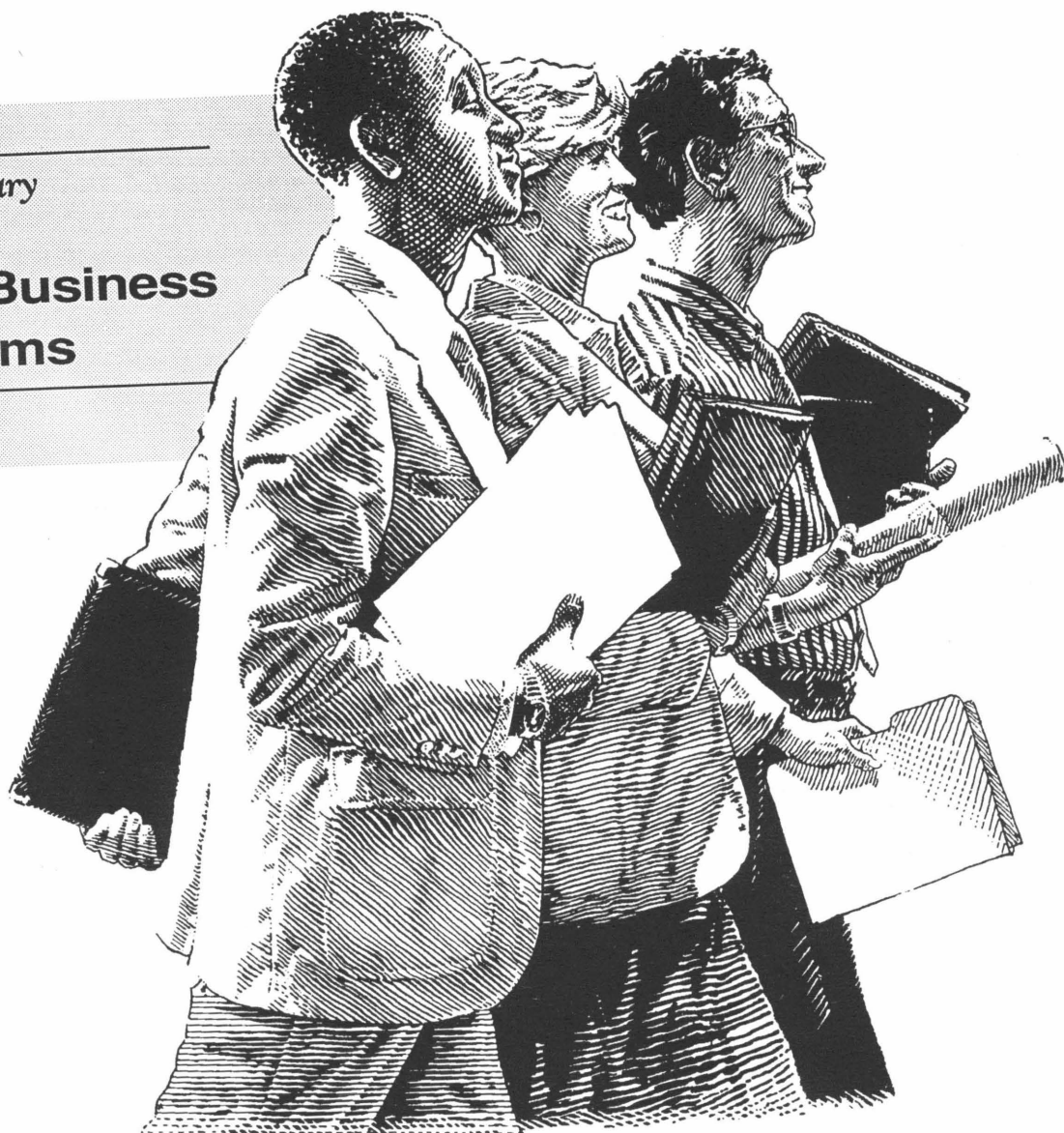
1. MINUS total variable costs  
(corresponding sales volume) \_\_\_\_\_

(It may be necessary to try several different levels of sales or manufacturing volume, in order to assess profits)



*glossary*

## **of Business Terms**







# Glossary of Business Terms

## A

**Accountant** One who is skilled at keeping business records. Usually, the name “accountant” refers to a highly trained professional rather than one who keeps books.

**Account** A record of a business transaction. When something is bought on credit, the company sets up an “account.” This means it sets up a record of what is bought and what is paid. This needs to be done with any customers to whom credit is extended.

**Accounts Receivable** A record of what is owed to the business. All of the credit accounts—the record of what each customer owes—make up the “accounts receivable.”

**Analysis** Breaking an idea or a problem down into its parts to examine them. In business, it is necessary to analyze a problem before deciding on the best solution. If the problem is an item that is not selling well, make an analysis by gathering all the facts as to why the item is not selling.

**Asset** Anything of worth that is owned. Your personal assets (not counting your abilities) are the money you have in your pocket or in the bank, whatever is owed to you, any securities that you own, the property you own, the part of your home that you own, your furniture and appliances and all the miscellaneous things that you personally own. The assets of a business are just the same: money in the bank, accounts receivable, securities held in the name of the business, property or buildings, equipment, fixtures, merchandise for sale or being made, supplies and all things of value that the business owns.

**Articles of Incorporation** A legal document that sets forth the purpose and regulations for a corporation. These papers must be federally approved before a corporation legally exists and is allowed to do business.

## B

**Bad Debts** Money owed that cannot be collected. A business can not assume that it will collect everything from those to whom credit or money is given. A business needs to carefully assess the credit risk of customers before extending credit.

**Balance** The amount of money remaining in an account. The total of your money in the bank after accounting for all transactions (deposits and withdrawals) is called a “balance.”

**Balance Sheet** An important business document that shows what a business owns as of the date shown. A “balance sheet” is a list of business assets and their costs on one side and a list of liabilities and owners’ equity (investment in the business) on the other side with the amount for each. The liabilities include all that the business owes.

**Bookkeeping** The process of recording business transactions in the accounting records. It is very important to keep accurate and complete financial records. A good bookkeeping system will be a great help.

**Break-Even Point** Where the income is equal to the outgo. The level of business at which the revenue (income) exactly equals the expenses (outgo).

**Budget Money** A plan expressed in money terms. How much money is needed to run the business? How much money do you think will be coming?

## C

**Capital** Available money to invest or the total of accumulated assets available for production. Your capital for going into business is the total of your property and money resources that you make available for the business, and whatever you will need to live on while getting the business going.

**Capital Requirement** A list (or schedule) of expenses that must be met to establish a business. Before a business is started, the owner needs to keep records.

**Cash** Money in hand or readily available. Currency, bills, and checks are cash. The money that can be drawn on demand from checking or savings accounts also represents "cash." Cash is needed to keep a business going. It is not unusual for a very successful business to run out of "cash," particularly as the business is growing.

**Cash Discount** A deduction that is given for prompt payment of a bill. The amount may seem small (possibly two percent), but it is important. A two percent discount for paying within ten days is the same as getting 36 percent interest on money for the year.

**Cash Flow** (1) A company's funds that are available for expanding assets to increase sales. (2) Net income before taxes plus depreciation and debt amortization.

**Cash Receipts** The money received by a business from customers. "Cash receipts" are to a business what food and water are to anything living. A business can survive just so long on its stored-up capital.

**Collateral** Property pledged by a borrower to secure a loan. In the event of default, the lender has the right to use proceeds from the sale of the collateral to obtain repayment of the loan.

**Contract** An agreement regarding mutual responsibilities between two or more parties. In business law, a "contract" exists when there has been a meeting of minds—whether or not the contract is written. Contracts are usually in written form and legally bind the parties to the agreement.

**Controllable Expenses** Those expenses that can be controlled or restrained by the businessperson. Some of the costs of doing business can be postponed or "spread out" over a longer period of time. Depreciation on equipment is a "controllable expense" in the sense that it is not required. One may delay obtaining new equipment until the level of business is such that it can support the new purchase and its depreciation allowance.

**Corporation** A business venture comprising an individual or a group of individuals and treated by the law as an individual. A business corporation is created by a charter. It can do business as a separate entity, the same as individuals can do in a sole proprietorship or a partnership.

**Co-signers** Joint signers of a loan agreement pledging to meet the obligations in case of default. When you ask someone to "co-sign" a note, you are asking them to share a debt with you if you cannot pay it back. They guarantee the loan will be paid back and the lender can take legal action to take their prop-

erty if they refuse to pay.

**Credit** Credit and debits are used in bookkeeping to record transactions. To credit is to place an entry on the right side of an account. A credit in an asset account makes it smaller. A credit in a liability account makes it larger. Another definition: the business owner's reputation for prompt payment of obligations, as in "a good credit rating."

**Current Assets** Assets held in cash or which are convertible into cash within one year.

**Current Liabilities** Liabilities of a company that will mature within one year or within the normal operating cycle of the business, whichever is longer.

## D

**Debenture** A bond or other debt obligation usually backed only by the integrity or general credit of the issuing borrower and not secured by a lien or any specific asset.

**Debit** Debits and credits are used in bookkeeping to record transactions. To debit is to place an entry on the left side of an account. A debit in a liability account makes it smaller. A debit in an asset account makes it larger.

**Debt** That which is owed. If you borrow money, buy something on credit or receive more money on an account than is owed, you have a "debt"—an obligation to pay back the money or goods involved. Going into "debt" can be a useful and often necessary way of doing business.

**Default** Failure to pay a debt or meet an obligation.

**Demand** An order to comply with an obligation. In business we speak of paying on "demand." This simply means that the obligation must be satisfied immediately when requested. Contracts are often written with a "pay on demand" clause. This means just what it says: the debtor must pay when requested if the terms of the contract agreement have been met.

**Depreciation** A decrease in value through age, wear or deterioration. All of the equipment that you buy for a business begins to depreciate immediately and is worth less as it continues to be used. Depreciation is a normal expense of doing business.

## E

**Entrepreneur** A person who organizes and manages a business.

**Equity Capital** Personal resources. To go into business, one needs to put up savings or property. This is done with the intent of getting a good return on your personal investment.

## F

**Financing** Obtaining money resources. Businesses usually have to obtain financing at some time—either to go into business or expand operations (but not, it is hoped, just to stay in business).

**Financial Statements** Documents that show your financial situation. Two major statements needed to cover the information necessary to run a business and get financing are the income statement and bal-

ance sheet.

**Fixed Assets** Those items of a permanent nature, required for the normal conduct of a business, and not converted into cash during a normal fiscal period. Examples include building, machinery and furniture.

**Fixed Expenses** Those costs that do not vary from one period to the next. Generally, these are expenses that are not affected by the volume of business. Rent, for example, needs to be paid whether or not any business is accomplished.

**Fixed (Long-Term) Liabilities** Liabilities that will not mature during the next account period.

**Franchise (Franchiser, franchisee)** A right or privilege to deal in a certain line or brand of goods and services. A franchising company (franchiser) is in the business of "selling" businesses or brands to small businesspersons who agree (franchisee) to enter into a binding contract where the franchiser supplies the product, materials and a certain amount of know-how and the franchisee agrees to handle the product exclusively and run the business according to certain standards prescribed by the franchiser.

## G

**Gross** Overall total before deductions. "Gross" means the whole amount. A businessperson needs to learn the difference between "gross" and "net" figures.

## I

**Income** Money coming in. In a business sense, "income" is the same for the business as for an individual.

**Income Statement** A financial document that shows how much money (revenues) came in and how much money (expenses) was paid out. Subtracting the expenses from the revenues gives you your profit and all three are shown on the income statement.

**Industry Ratio** The standard or "average" percentage of expenses spent by firms in a similar type of business (i.e. firms in the same industry). These "industry ratio" figures are very important guidelines for a business.

**Interest** The cost of borrowing money. As one is interested in a return on his/her investment in the business, a return on investment is of concern to other lenders of money.

**Invest** Money expended for a purpose from which a profit is expected. One way to evaluate whether an investment in a business is worthwhile is to consider what would be received on that same amount of money put into a low risk investment.

## L

**Lease** A long term rental agreement. A "lease" arrangement is mutually advantageous to both the lessor (renter) and the lessee (one who rents). The agreement gives the landlord assurance that the property will be rented and protects the renter because it assures that the business property will not be rented to someone else.

**Liability Insurance** Risk protection for actions for which a business is liable. Insurance that a business carries to cover the possibility of loss from lawsuits in the event the business or its agents were found at fault when an action occurred.

**Limited Partnership** A legal partnership where some owners are allowed to assume responsibility only up to the amount invested. The idea in a limited partnership is that some investors may put money into a business venture without being directly involved in its operation. Then, they are not held responsible for the debts of the other partners beyond the possible loss of the money they have invested.

**Liquidate** To settle a debt or to convert to cash. This literally means to do away with.

**Liquidity** The ability of a firm to meet its current debts with cash payments.

**Loan** Money advanced with interest. A lender makes a “loan” with the idea that it will be paid back as agreed and that interest will be paid as a sort of “rent” for the use of the money.

## M

**Management** The art of conducting and supervising a business. It is not enough to invest money in a business—the business must be nurtured, protected and helped to success. Managers do more than manage people; they also manage things.

**Marketing** All the activities involved in buying and selling a product or service. The following are important factors to know:

- Who is going to buy?
- What is it they want?
- Where will they go to get it?
- How much will they pay?
- How much will they buy?
- Who else sells it?
- How will you sell it?
- How much profit do you want?

**Merchandise** Goods bought and sold in a business. “Merchandise” or stock is a part of inventory.

## N

**Net** What is left after deducting all charges. (See “gross.”)

## O

**Operating Costs** Expenditures arising out of current business activities. “Operating Costs” are what it costs to do business—the salaries, electricity, rental, deliveries, etc., that are involved.

**Operating Ratio** The relationship of costs from business activities. What percentage of costs went for rent? How does it compare with other businesses?

**Owner** One who owns and operates a business. One of the greatest assets that an “owner manager” has is flexibility to meet problems.

## P

**Partnership** A legal business relationship of two or more people who share responsibilities, resources, profits, and liabilities. Partnerships are built on mutual trust and friendship, but the agreement needs to be written.

**Payable** Ready to be paid. One of the standard accounts kept by a bookkeeper is "Accounts Payable."

**Personnel** Persons collectively in the employ of a business. As a small business grows, it will need people to handle the expansion of business and carry out the work of the business. The personnel are a part of the business. They deserve consideration as full-fledged members of the firm, though they may not share in the firm's ownership and profits.

**Plan** A plan is making a formal decision to do something, then deciding how to do it before starting. Answer the questions: Who? Where? When? How? and Why? Plan first, then do. (See "budget.")

**Posting** To enter in an account. Literally, "post" means to give a position to something. When figures are "posted" in a ledger, they are assigned a position in the firm's account books.

**Pricing** To set the selling price. One of the most difficult jobs in business is selecting the right price. Pricing should be done very carefully. Consider how much profit is needed, what the competition is charging, and how much the customers are willing to pay.

**Prime Rate** A benchmark interest rate which an individual bank may establish and sometimes use to compute an appropriate rate of interest for a particular loan contract. This rate is based on numerous factors including the bank's supply of funds, its cost of funds, its administrative costs, and competition from other suppliers of credit.

**Principal** Property or capital assets as opposed to income; also, one who is directly concerned in a business enterprise. This is a word with more than one meaning. Whether used to describe people or capital assets, it means "the first in importance."

**Profit** Financial gain; returns over expenditures. Profit is what you have left after paying for everything.

**Profit Margin** The difference between your selling price and your costs. Many factors affect profit margin both inside and outside the business. A reasonable profit margin is necessary to remain in business.

**Profit and Loss Statement** A list of the total amount of sales (revenues) and total costs (expenses). The difference between revenues and expenses is your profit or loss. It is also called an "income statement."

**Proprietorship** Subject to exclusive ownership. A "proprietor" is one who owns a business. A business owned by one person is called a "proprietorship."

## R

**Ratio** The relationship of one thing to another. A "ratio" is a shortcut way of comparing things that can be expressed as numbers or degrees.

**Receivable** Ready for payment. When selling on credit, an "accounts receivable" is kept as a record of what is owed and who owes it. In accounting, a "receivable" is an asset—it represents money that is owed.

**Reserve** That which is held back or stored for future use or in case of emergency. The success or failure of many young businesses depends on their abilities to weather a financial crisis.

**Retail** Selling directly to the consumer. Selling in large quantities to dealers for resale is a “wholesale” activity. Selling in small quantities directly to people who will use the product is called “retail.”

**Revolving Credit** A contractual agreement allowing a customer to borrow funds when needed up to a specific maximum amount for a limited period of time.

## S

**Secured** Protected or guaranteed. “Secure” means to make something safe. A “secured loan” is protected by putting up something of value as collateral, as a guarantee of repayment.

**Service Business** A retail business that deals in activities for the benefit of others.

## T

**Terms of Sale** The conditions concerning payment for a purchase. A very important source of saving.

**Tangible** Something that is real. In business, “tangible” is something that can be seen and evaluated.

## V

**Volume** An amount or quantity (of business). The “volume” of a business is the total it sells over a period of time.

## W

**Wholesale** Selling for resale. (See “retail” for explanation.)

**Working Capital** A firm’s total current assets.

**Working Capital (net)** The difference between a firm’s current assets and current liabilities. This is, also, the amount of liquid funds available to a business for its daily needs.

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## NOTES

## NOTES





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