

Marketing Essentials



Chapter 36

financing the business

Section 36.1 Financial Analysis

Section 36.2 Financial Statements

Financial Analysis



Before You Read

PREDICT What might happen if an entrepreneur did not include financial documents in a business plan?

OBJECTIVES

- **Explain** the purpose of financial documents.
- **Develop** a personal financial statement.
- **Determine** start-up costs for a business.

THE MAIN IDEA

A key reason for writing a business plan is to obtain financing to start a new business. It is important to prepare and include financial documents in a business plan.

VOCABULARY

- personal financial statement
- asset
- liability
- net worth
- start-up costs

Financial Analysis

Graphic Organizer

Steps to Prepare the Financial Section of a Business Plan

Organized Financing

1. Prepare financial documents.

2.

3.

4.

Financial Analysis

Graphic Organizer

Steps to Prepare the Financial Section of a Business Plan

Organized Financing

1. Prepare financial documents.

2. Prepare personal financial statement.

3. Prepare start-up costs worksheet.

4. Prepare personal living expenses worksheet.

The Financial Part of a Business Plan

The Five Financial Documents Normally Included in a Business Plan

Personal Financial Statement

Start-Up Cost Estimate

Income Statement

Balance Sheet

Cash Flow Statement



personal financial statement

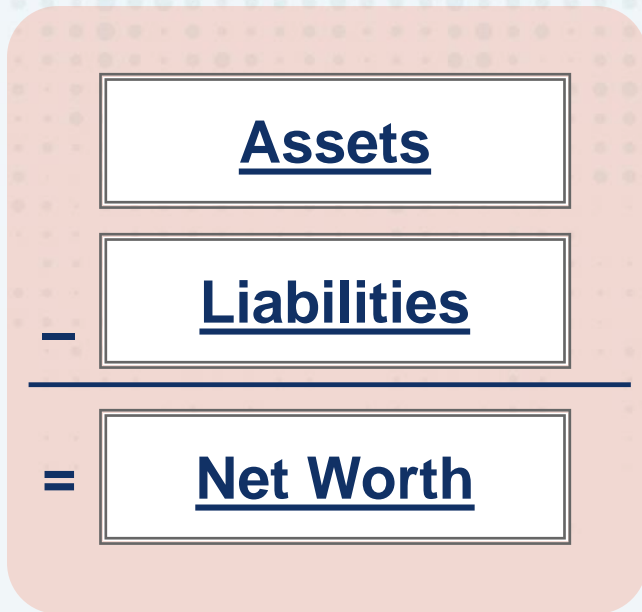
A summary of one's current personal financial condition listing assets and liabilities.



start-up cost

Projections of how much money a new business owner needs for the business's first year of operation.

The Financial Part of a Business Plan



asset

Anything of monetary value that a person owns, such as cash, checking and savings accounts, real estate, or stocks.



liability

A debt owed to others, such as a car payment, credit card debt, or taxes



net worth

The difference between assets and liabilities.

The Financial Part of a Business Plan

Factors Affecting the Amount of Start-Up Money Needed

The nature of the proposed business

The operating expenses

The size of the business

Start-up expenses

The amount and kind of inventory needed

One-time costs

The estimated time between starting the business and earning income

Continuing costs

Personal Living Costs

To get through the start-up period, set aside a fund for living expenses in an account from which you can withdraw money without penalty.

Financial Analysis



After You Read

Section 36.1

1. **Define** asset, liability, and net worth.

Asset: anything of monetary value that you own; liability: a debt that you owe to others; net worth: the difference between assets and liabilities.

Financial Analysis



After You Read

Section 36.1

2. **Explain** why it is important to assess start-up costs before starting a new business.

You need to accurately assess start-up costs so that you can protect yourself by having adequate capital and help to ensure the viability of the proposed business.

Financial Analysis



After You Read

Section 36.1

3. **Discuss** why knowledge about your own living expenses is important to your business plan.

It is important to know about your own living expenses because if you are not going to continue to work at another job or get living expenses from elsewhere, you need to have money to live on until the business starts producing enough to cover your expenses. It is a good idea to project your monthly living expenses and household cash needs for at least the first year of business.

Financial Statements



Before You Read

PREDICT Why do you think many new businesses fail?

OBJECTIVES

- **Estimate** business income and expenses.
- **Prepare** an income statement.
- **Create** a balance sheet.
- **Interpret** a cash flow statement.

THE MAIN IDEA

The financial section of a business plan includes a projected income statement, balance sheet, and cash flow information. Financial institutions and investors want to know how a business will use their money and how it will be repaid.

VOCABULARY

- income statement
- gross sales
- net sales
- net income
- interest
- principal
- balance sheet
- cash flow statement

Financial Statements

Graphic Organizer

Key Financial Documents

Financial Documents

1. Prepare an income statement.

2.

3.

Financial Statements

Graphic Organizer

Key Financial Documents

Financial Documents

1. Prepare an income statement.

2. Prepare a balance sheet.

3. Prepare a cash flow statement.

Estimating Business Income and Expenses

Buying an Existing Business

- ▶ Use previous operating results as a guide.
- ▶ Show lenders a proven track record that will continue under your ownership.

Starting a New Business

- ▶ Estimate the potential revenue and the operating expenses.

Many small businesses fail because they do not generate enough revenue to pay their costs and expenses.

Preparing an Income Statement

Major Parts of an Income Statement

Total and Net Sales

Net Income from Operations

Cost of Goods Sold

Other Income or Expenses

Gross Profit

Net Profit Before Income Taxes

Operating Expenses

Net Profit After Income Taxes



income statement

A summary of income and expenses during a specific period such as a month or year.

Preparing an Income Statement

Estimating Total Sales

Most new businesses grow slowly.

Calculate and verify a reasonable estimated sales volume.

The accuracy of your sales estimates relies partially on the quality of your market analysis.

Preparing an Income Statement

Gross Sales



gross sales

The total of all sales for a given period of time.

Net Sales



net sales

The amount left after gross sales have been adjusted for returns and allowances.

Preparing an Income Statement

Determining Gross Profit

Net Sales

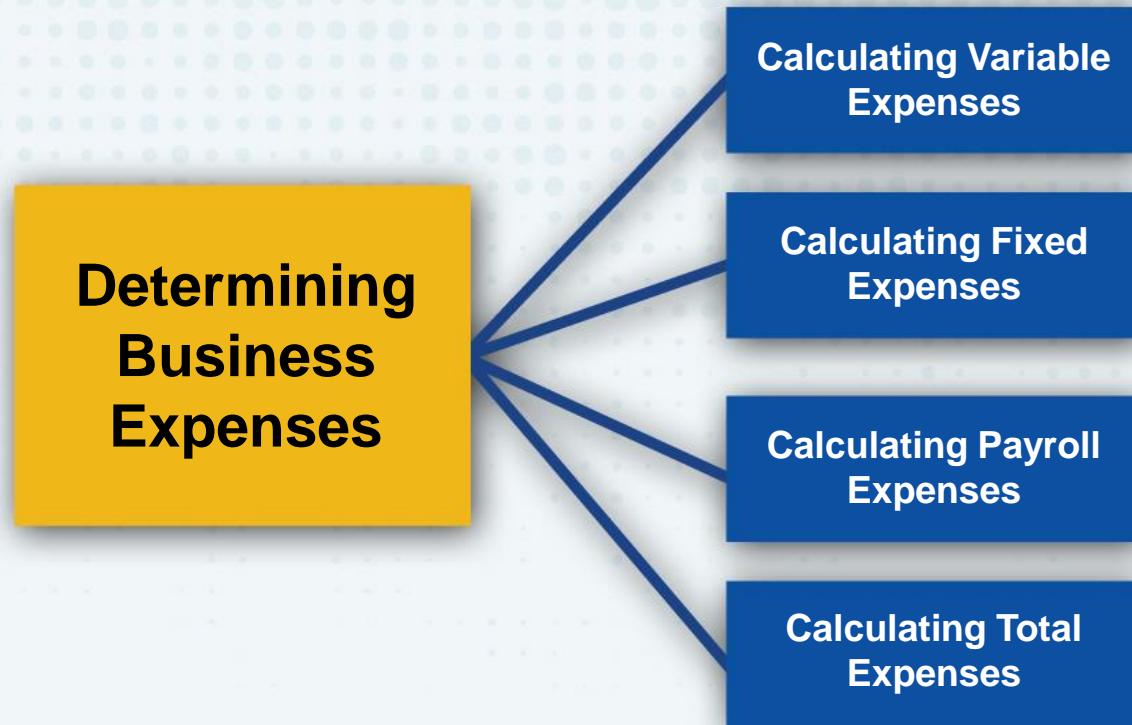
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Cost of Goods Sold

=

Gross Profit

Preparing an Income Statement



Preparing an Income Statement

Net Income from Expenses

Gross Profit
on Sales

—

Total Expenses

=

Net Income from
Operations



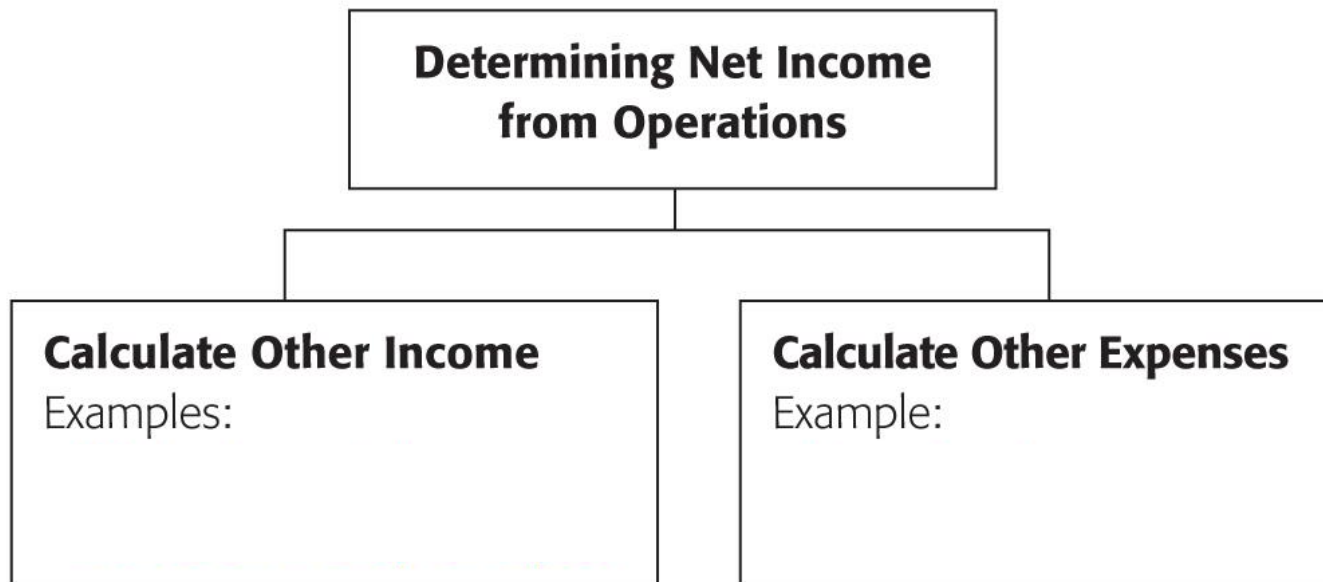
net income

The amount left after total expenses are subtracted from gross profit.

Preparing an Income Statement

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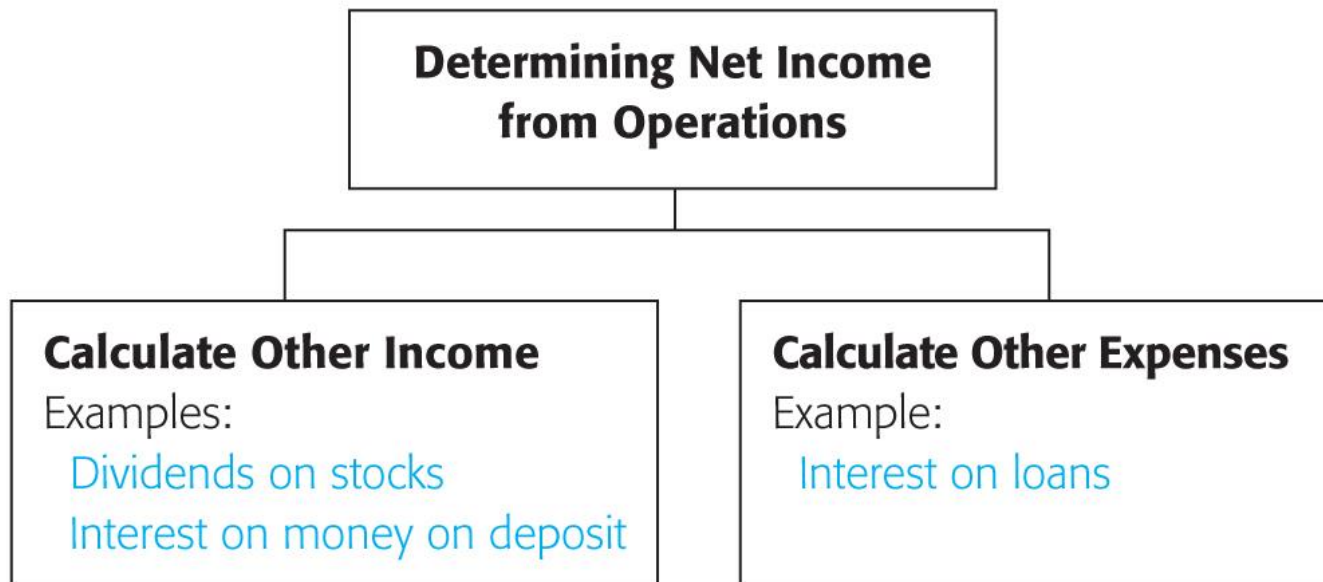
Examples of Other Income and Other Expenses



Preparing an Income Statement

Graphic
Organizer

Examples of Other Income and Other Expenses



Preparing an Income Statement

Interest



interest

The money paid for the use of money borrowed or invested.

Principal



principal

The amount of money needed to start a business.

Financial Statements

Preparing an Income Statement

Net Profit or Loss Before Taxes

Net Income from Operations

+

Other Income

Subtotal

-

Other Expenses

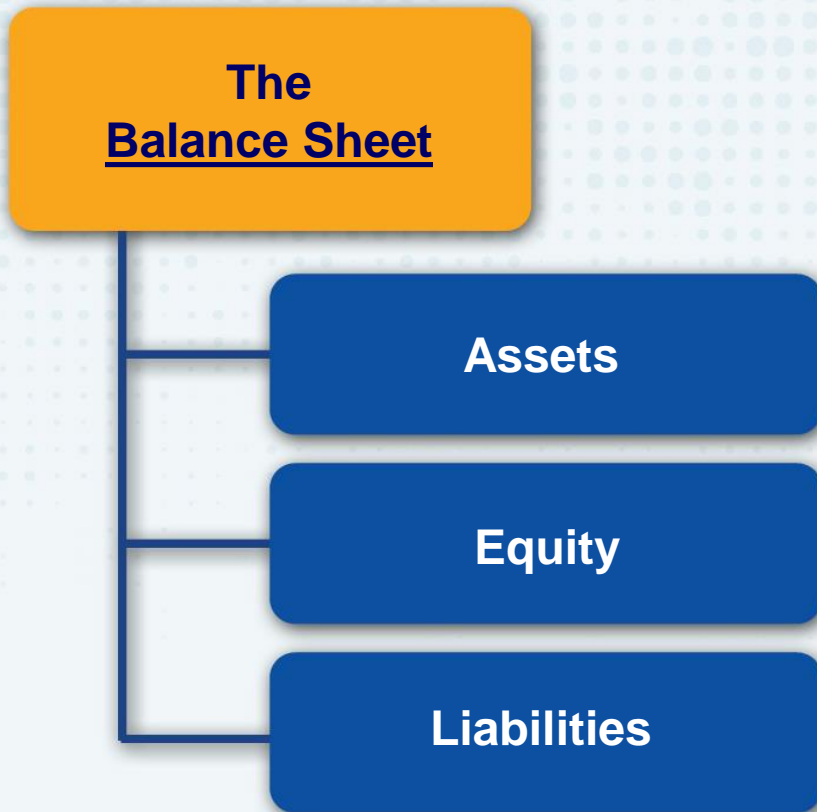
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Net Profit (or Loss) Before Taxes

Preparing an Income Statement

Net Profit (or loss) after taxes is the amount of money left over after federal, state, and local taxes are subtracted.

The Balance Sheet



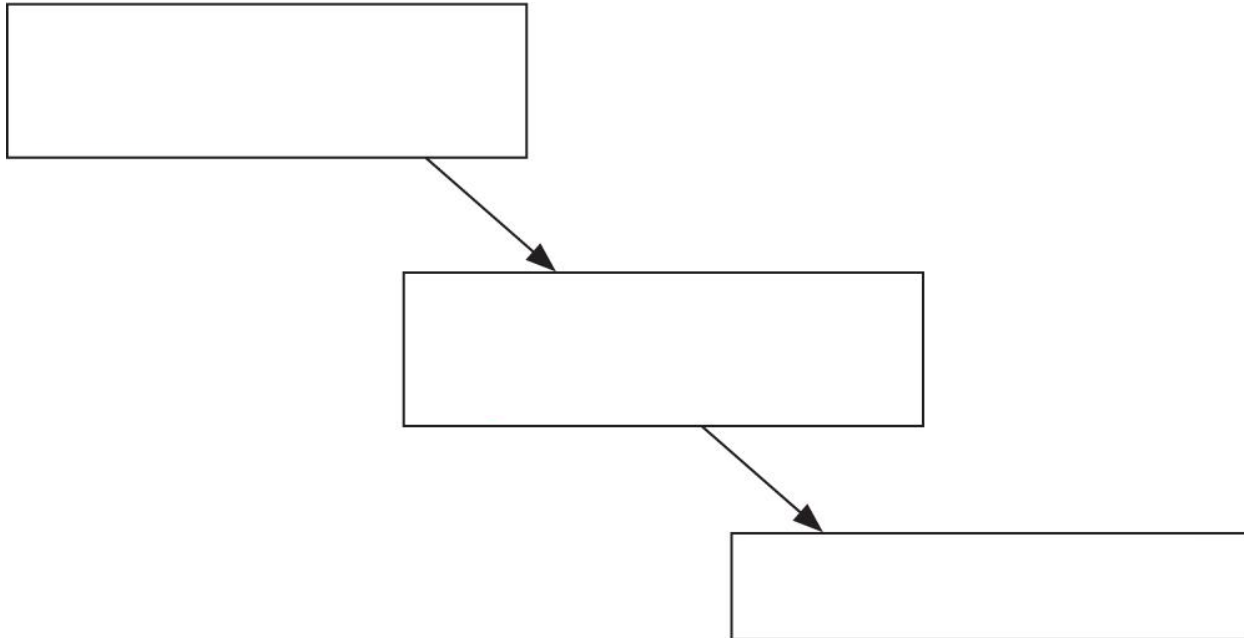
balance sheet

A summary of a business's assets, liabilities, and owner's equity.

The Balance Sheet

Graphic
Organizer

Examples of Other Income and Other Expenses



The Balance Sheet

Graphic Organizer

Examples of Other Income and Other Expenses

Add current and fixed assets

Subtract current and long-term liabilities

Net Worth (Equity)

Financial Statements

The Balance Sheet

Graphic Organizer

Identify the Ratios

You want to determine a business' ability to meet its short-term cash needs.



You want to determine how quickly a business' assets can be turned into cash.



You want to measure how many days it takes to turn over inventory.



You want to determine the rate of profit as percentage.



You want to determine how well you are doing compared to other companies.



Financial Statements

The Balance Sheet

Graphic Organizer

Identify the Ratios

You want to determine a business' ability to meet its short-term cash needs.



Acid Test Ratio
(Quick Ratio)

You want to determine how quickly a business' assets can be turned into cash.



Accounts Receivable
Turnover

You want to measure how many days it takes to turn over inventory.



Stock Turnover Ratio

You want to determine the rate of profit as percentage.



Profit Margin on Sales

You want to determine how well you are doing compared to other companies.



Rate of Return on
Assets

Cash Flow Statement

What Does a Cash Flow Statement Tell You?

Will you have enough money to pay your bills on time?

How much cash did you start with?

What are your projected expenditures?

How and when do you plan to receive cash?

When will you need additional funds?

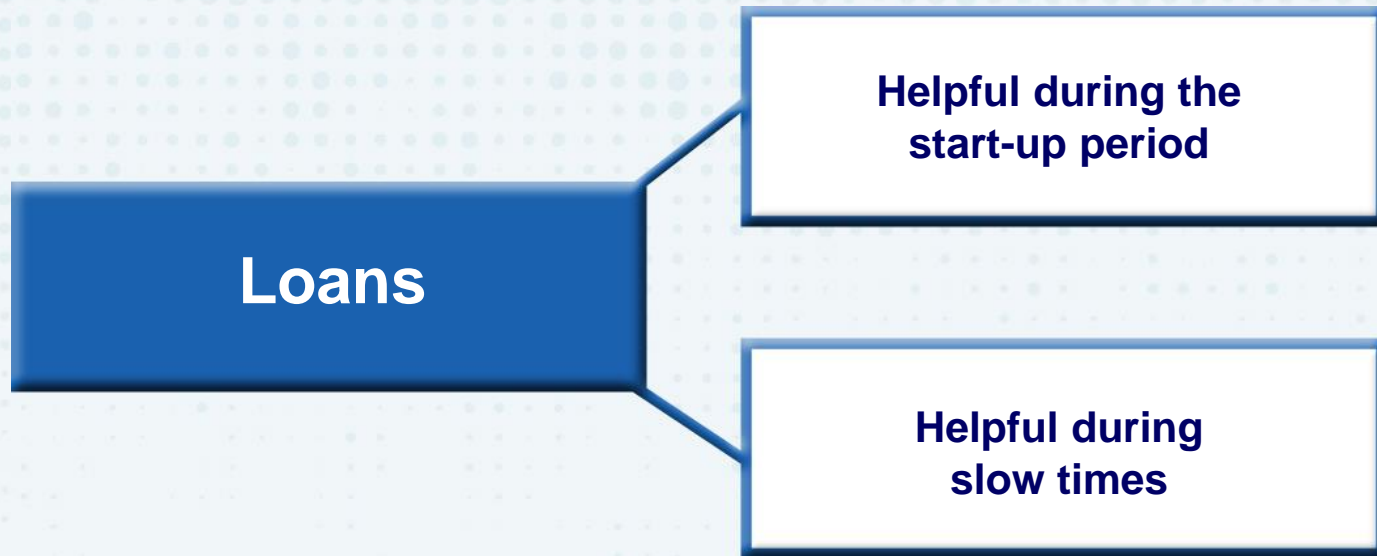


cash flow statement

A monthly plan that tracks when cash is expected to come into the business and when it is expected to be paid out.

Financial Statements

Loans



Financial Statements



After You Read

Section 36.2

1. **List** the major categories that are calculated on an income statement.

The major categories calculated on an income statement are total sales, net sales, cost of goods sold, gross profit, business expenses (operating expenses and fixed expenses), net income from operations, net profit or loss before taxes, net profit or loss after taxes.

Financial Statements



After You Read

Section 36.2

2. **Identify** the formula for determining gross profit.

The formula for determining gross profit is:
$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold}.$$

Financial Statements



After You Read

Section 36.2

3. **Explain** the purpose of a balance sheet.

The purpose of a balance sheet is to provide a summary of a business's assets, liabilities, and owner's equity.

Marketing Essentials



End of **Chapter 36**

**financing the
business**

Section 36.1
Financial Analysis

Section 36.2
Financial Statements