

Startup Financial Plan

STEP BY STEP LOGICAL PROCESS

INCLUDES ALL THREE FINANCIAL STATEMENTS

PRINT FRIENDLY STATEMENTS FOR BUSINESS PLANS

DIRECT SUPPORT AVAILABLE

Download complete workbook model at www.startup-financial-plan.com

This slide deck walks you through the specific steps and each template



Author of Startup Financial Plan



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Roadmap – High Level View

- Start with a basic understanding of the three financial statements
 1. Income Statement
 2. Balance Sheet
 3. Cash Flow Statement
- Next, follow these key steps:
 1. Determine Total Required Investment (Startup Costs) + Funding Plan
 2. Forecast Revenues and Expenses Year 1 - Income Statement
 3. Compile the Balance Sheet per Year 1 Transactions
 4. Compile the Cash Flow Statement



What is a Financial Plan

- Set of Projected or Forecasted Financial Statements based on key assumptions on what you can execute going forward
- Three statements prepared in the following order:
 - 1. Income Statement (Revenues and Expenses)
 - 2. Balance Sheet (Assets, Liabilities and Equity)
 - 3. Cash Flow Statement (Cash Inflows and Outflows)
- Base Year 1 is projected out based on some basic growth adjustments for Year 2 and 3 (3-year projections is recommended)



Why Prepare a Financial Plan

- Need to fully comprehend the total investment required to capture customers and reach breakeven (revenues start to cover expenses)
- Helps define how best to allocate funds so you can capture customers as quickly as possible to prove your concept
- Serves as a benchmark to gauge financial performance and make timely adjustments.
Example: Sufficient Gross Margin to become Profitable
- A well documented financial plan is necessary to attract potential lenders and/or equity investors. *Example: Bank needs 3 years of financial projections to approve your bank loan*
- Imposes financial discipline on business owners who may not understand the financial side of running a business – *you need to understand the numbers*



Financial Terminology 101

- Net Income = Earnings = Profits (same thing)
- Projected = Forecasted = Pro Forma (same thing)
- Capital Expenditure vs. Capital Deployed (not the same thing)
- Gross Revenues – Uncollected Receivables or Product Returns = Net Revenues
- Tangible Assets = Physical Assets that are Depreciated over their useful life such as Equipment
- Intangible Assets = Non-Physical Assets that are Amortized such as Patents and Trademarks



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- 2. The Three Financial Statements**
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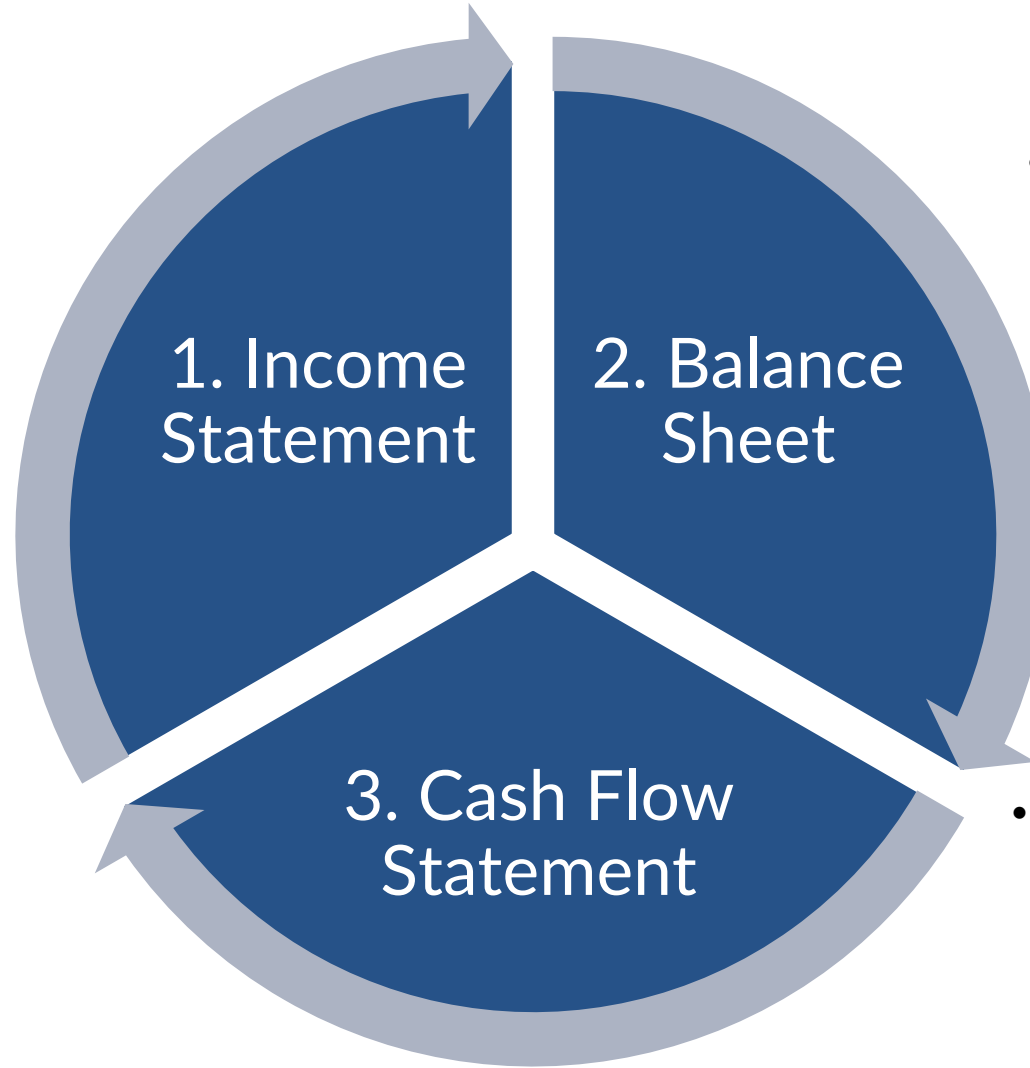


The Three Basic Financial Statements

- The **Balance Sheet** presents the financial condition of the business at a point in time
- Shows what resources (**assets**) you own and how they were financed (**liabilities** and **equity**)

Every business has five types of financial transactions:

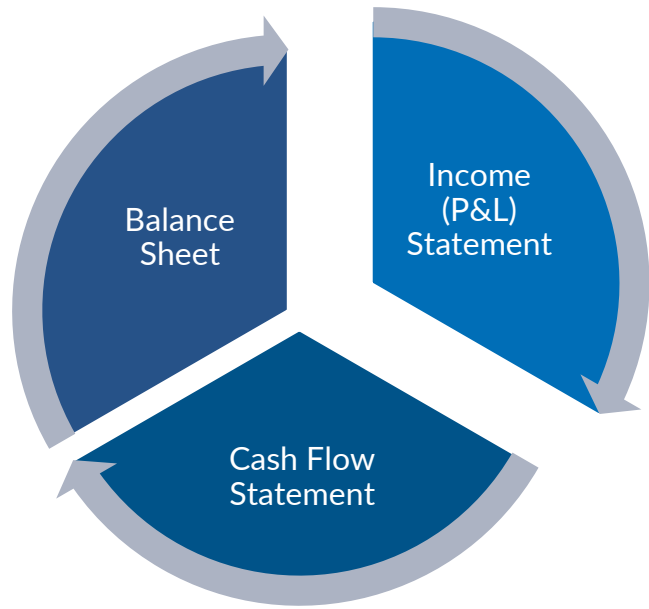
1. **Assets**
2. **Liabilities**
3. **Equity**
4. **Revenues**
5. **Expenses**



- An **Income (or Profit Loss) Statement** shows **revenues**, **expenses** and profit or loss in a given period (month, quarter, year)
- A **Cash Flow Statement** shows your receipts (sources) and payments (uses) over a period of time (month, quarter, year)



Income (P&L) Statement Fundamentals



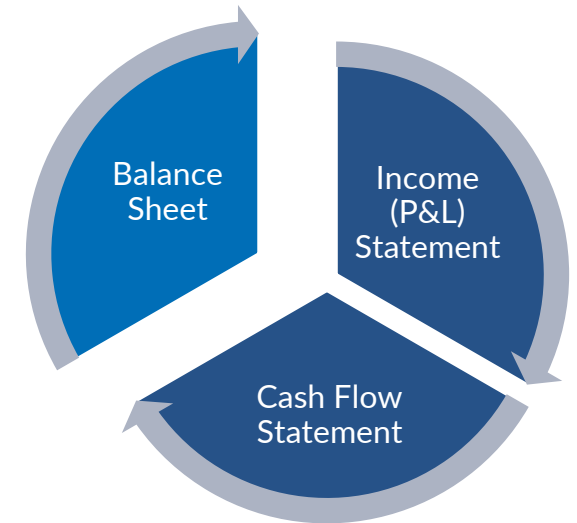
- Income Statement summarizes all revenues and expenses for the reporting period (usually calendar year)
- Difference between total revenues and total expenses is a profit or loss
- At year end, all balances for the Income Statement are set to zero and the profit or loss is closed out to the Balance Sheet
- Profit or Loss is also reported on the Tax Return

Key Point: Start your financial plan with the Projected Income Statement – How much can you expect to sell at what price and what expenses are expected month to month to support on-going sales to customers



Balance Sheet Fundamentals

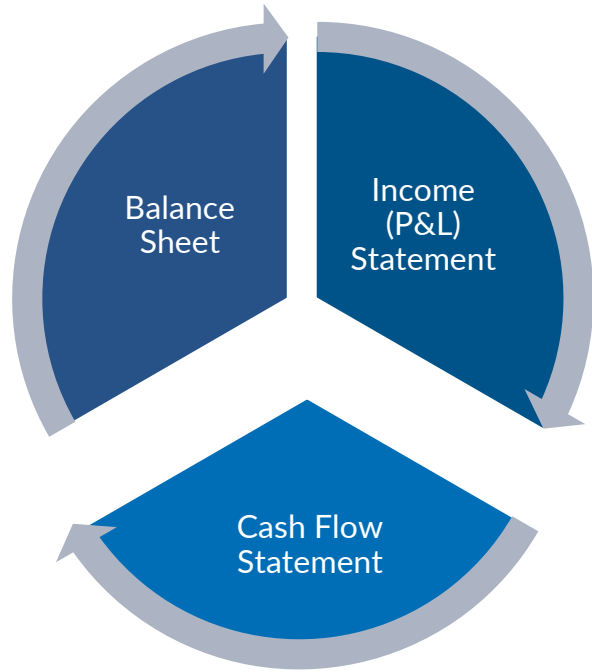
- Financial condition of the business at a point in time
- Shows what resources (assets) the firm owns and how it was financed through liabilities and equity as of a *cut off date*
- Three Main Components
 - Assets (current and long term)
 - Liabilities (current and long term)
 - Owner's Equity
- Must balance! $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$



Key Point: Once you know your revenue and expense projections, what assets are needed to support the sales projections and how will you finance this (liabilities and equity)



Cash Flow Statement Fundamentals

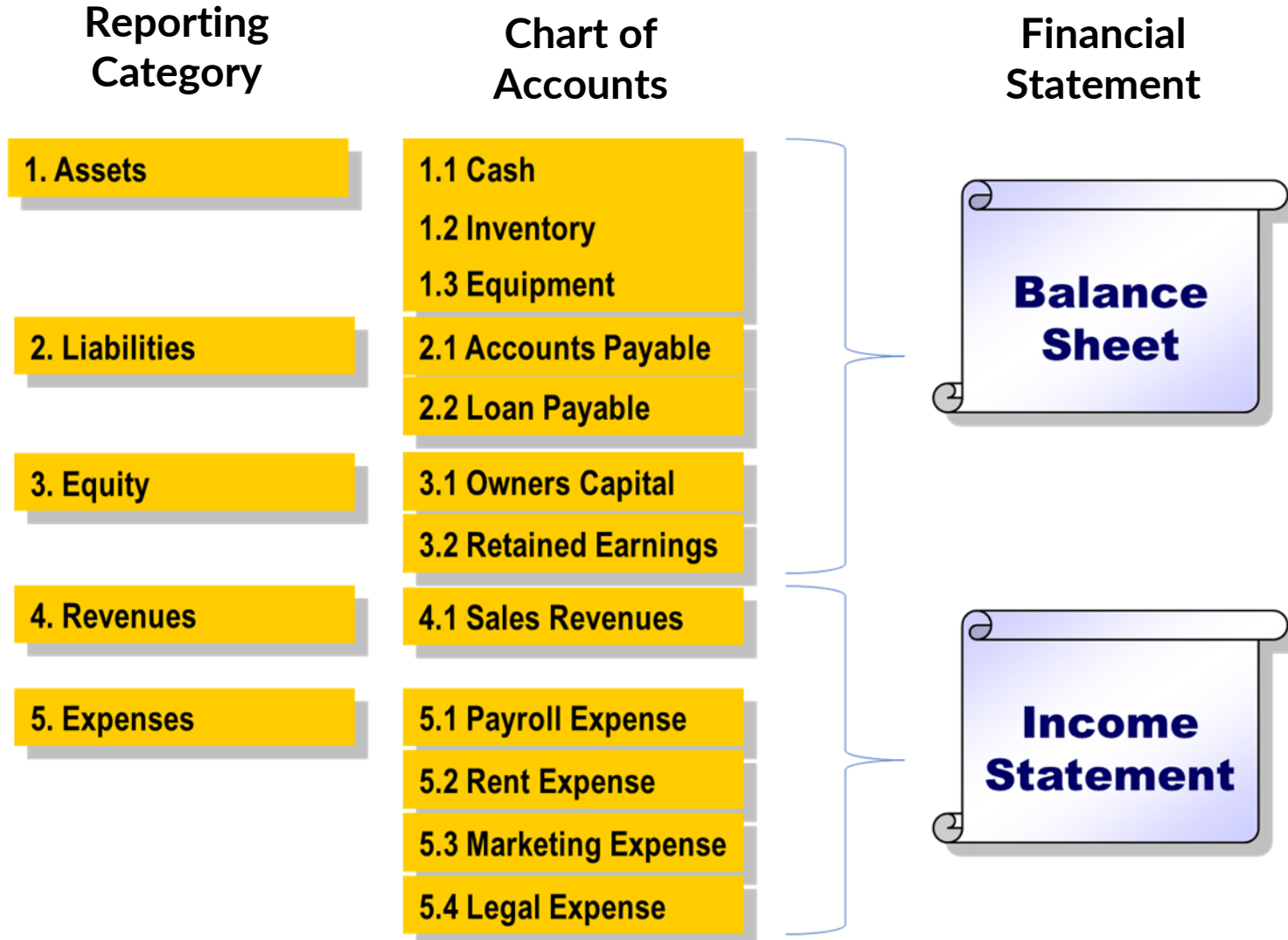


- A Cash Flow Statement shows your receipts (sources) and payments (uses) of cash month to month
- Present similar to your bank statement, showing opening and closing balances
- More insightful when all cash flows are broken out into three categories:
 1. **Operations** – Cash inflows and outflows from operations such as sales and operating expenses
 2. **Investments** – Cash applied for fixed assets (such as equipment)
 3. **Financing** – Money raised through loans, owners, etc.

Key Point: Once you know your revenues, expenses, assets, liabilities and equity, you prepare a projected cash flow statement showing how all five financial types of transactions flow in and out of the business checking account.



Structure for Generating Financial Statements



Every time money moves in and out of your business checking account, you have to classify and post the transaction – **Where did the money come from OR Where did the money go?**

Examples:

1. \$ 10,000 was deposited to your business checking account. Where did you get this money? Answer: Bank Loan = **2.2 Loan Payable**
2. \$ 650 was paid out of the business checking account. Where did the Facebook Ads = **Expense**



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Start with Critical Questions – Basis for Financial Plan

1. How much do you think you can sell – over what time period?
2. How long will it take to cover all of my operating expenses (breakeven)?
3. What are the one-time startup investments to launch this business?
4. What are the monthly operating expenses?
5. What is the total money I need to raise to reach breakeven?
6. How will I fund all of the startup expenses through breakeven?
7. How much will I charge (pricing) customers for my products and services?



Translate Critical Questions into Key Assumptions

- Build out location = \$ 15,000 + \$ 25,000 in Fixtures and Equipment = \$ 40,000 one-time expense
- Rent is \$ 4,500 per month | Labor is \$ 16,000 per month | Food Cost is \$ 13,000 per month
- Need to cover 9 months of operating expenses at \$ 46,000 per month
- Total Required Investment = \$ 454,000 ($\$ 40,000 + (\$ 46,000 \times 9)$)
- Owners will invest \$ 94,000 < **Needs to be at least 20% of startup cost if borrowing money is involved**
- Requested Loan Amount = \$ 360,000
- Expected Tables Turned / Served per Day = 65 x Avg Table Sales Amount of \$ 45.00 = \$ 2,925 per Day x 330 days open during the year = \$ 965,250 Annual Gross Sales Revenues



Most difficult variable to estimate is the **sizing parameter or volume** in your sales forecast. How many houses can I sell as a realtor in year 1, how many landscaping projects can we do in year 1, how many cupcakes can I sell in my bakery startup, how many users will subscribe to my web app, etc. Very difficult to estimate – helps to have soft commitments or pending otherwise, it is too much of a wild guess – **Extremely subjective part of entire financial planning process** – Put some serious thought into this!



Document Start-up Costs (Step 1)

- All expenses (one time and recurring) to fully stand-up the business and attract customers
- Two important milestones in the life cycle of the financial plan:
 1. **Get to First Customer** – You are limited on what you can deduct on your tax return when you are in “conceptual” stage. Once you have your **first sale**, all expenses become deductible on the business tax return.
 2. **Get to Breakeven** within 5 Years – You are limited on how you treat the business for tax purposes. If you never show a profit after **five years**, may get classified as a “hobby.”



Examples of Startup Costs to Consider

- Some examples of one time and month to month expenses:
 - Lease payments month to month.
 - Build-out costs of facilities (one time investment).
 - R&D or other development cost prior to opening.
 - Purchase of equipment to run business (one time investment).
 - Initial inventory of products to sell.
 - Monthly marketing and selling expenses.
 - Website development and monthly web hosting fees
 - Licenses (annual) and Insurance (monthly, semi-annual or annual)
 - Outsource labor costs, both one time and month to month,



Three (3) Templates for Startup Costs

Three Key Components – 1) One Time Investments; 2) Operating Expenses; 3) Contingency Reserve

One Time Investments are usually fixed assets such as Kitchen Equipment for a Restaurant or Trucks for a Landscaping business. Fixed Assets are expensed over their useful life through Depreciation Expense (non cash flow expense)

Step 1A Table			
Fixed Asset Type	Amount	Useful Life	Depreciation Amount
Real Estate - Land	\$ 15,000	Indefinite	not applicable
Real Estate - Building	\$ 220,000	39	\$ 5,641
Furniture and Fixtures	\$ 6,500	7	\$ 929
Vehicles	\$ -	5	\$ -
Equipment & Machinery	\$ 3,400	6	\$ 567
Leasehold Improvements	\$ 19,000	15	\$ 1,267
Computers, Laptops, Servers	\$ 7,800	5	\$ 1,560
Intangibles - Patents	\$ 6,000	15	\$ 400



Detail Estimates to Support Fixed Costs

Certain one-time expenses may require their own itemized estimate, such as build out / leasehold improvements to open a restaurant:

Build-Out Expenses:		
Architectural Plans		8,000
Permits & Fees		1,000
Carpentry & Drywall		2,000
Electrical		5,000
Plumbing		6,000
Mechanical - HVAC		5,000
Sprinkler System		3,500
Suspended Ceiling - 2 x 2 Tiles		3,000
Lighting Fixtures		4,000
Floor Covering		6,000
Painting		1,500
Total Build-Out Expense:		45,000

Fixtures & Equipment:		
Seating Tables and Chairs		15,000
Computer, Printer, Desk, Chair		2,500
Additional Chairs & Stools		750
Refrigeration Equipment		10,000
Storage Racks & Shelving		3,000
Refrigerated Display Case		1,500
Oven		12,000
Credit Card Equipment, Telephone		1,000
Total Fixtures & Equipment:		45,750



Monthly Recurring Operating Expenses (Step 1B)

Almost every business will have some month-to-month operating expenses:

Step 1B Table

Operating Expense	Amount
Rent / Lease Payments	\$ 2,200
Utilities - Electric, Water, Gas	\$ 230
Payroll - W2 Employees	\$ 3,600
Labor - Sub Contractors 1099	\$ 1,450
Research and Development	\$ -
Office Supplies	\$ 150
Marketing and Promotion	\$ 1,400
Travel Expenses	\$ 200
Legal Fees	\$ 500
HR Support	\$ 650
Accounting and Tax Support	\$ 350
Repairs and Maintenance	\$ 1,800
Licenses and Permits	\$ 170
Insurance	\$ 700
Taxes	\$ 1,900

Not all operating expenses are monthly:

1. Payroll Taxes – Every two weeks with payroll
2. Vehicle Insurance – Every six months
3. Business Registration – Annual

For purposes of keeping everything simple, we will calculate all expenses into a monthly cycle which helps with easy forecasting in a financial model

Example: \$ 4,200 is paid every six months for insurance or \$ 8,400 for 12 months = \$ 700 monthly amount



Add a Contingency Reserve for Unknowns (Step 1C)

It is impossible to estimate your final true startup costs; so, include a contingency reserve:

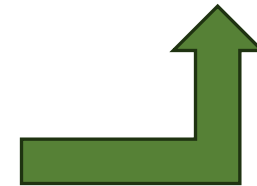
Low Risk – Understands the Industry, Extensive Experience with very similar type cost estimates. Small contingency reserve of 8% to cover unknowns and changes

High Risk – New to the Industry, Very little experience with cost estimates. Large contingency reserve of 45% to cover numerous unknowns and unplanned issues

Summarize and Calculate Total Estimated Startup Costs

Fixed Asset Investments	\$ 280,000	Step 1A
Operating Expense Runway	\$ 91,800	Step 1B
Sub Total	\$ 371,800	
Contingency Reserve Unknowns	\$ 74,360	Step 1C
TOTAL ESTIMATED COSTS	\$ 446,160	

Total required funding for
your startup business



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Step 2 – Funding Plan (3 Templates for 3 Sources)

How will I fund my total startup costs over the life cycle (breakeven) – Three Sources:

1. EQUITY – No obligation to payback, not taxed

Start with Equity – Owner(s) of the Business put in their own money. Reach out to family and friends for money

2. INCOME – Funding subject to taxation

Raise money through your social network – crowdfunding + grants from government and foundations

3. DEBT – Must payback to lending source

Borrow money from banks, credit unions and outside investors using convertible notes. Manufacturers may have financing options as well

Convertible Note – Issued to equity investor with the future expectation of ownership once the business and can be valued. SAFE – Simple Agreement for Future Equity is classified as Deferred Equity



Step 2A – Funding Plan Template for Equity

Most equity funding will come from the owner followed by family and friends

Step 2A Table

Equity Source	Example	Amount
Owners Personal Savings	Investments	\$ 6,000
Owners Assets are Sold	Estate Sale	\$ 15,000
Owners Equity in Home	Home Equity Line of Credit	\$ 50,000
Owners Retirement	401k early withdrawal	\$ -
Family and Friends	Not Obligated to Payback	\$ 5,700
Donated Capital	Assets are Donated	\$ 19,000
Equity Crowdfunding	StartEngine	\$ 20,000
Outside Investor	Angel Investor	\$ -
Outside Investor	Private Equity Group	\$ -
Seed Capital with Ownership	Accelerator Group	\$ 5,000



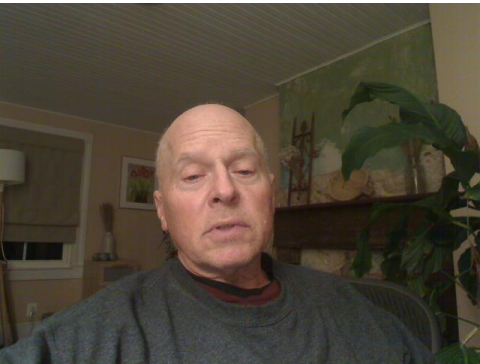
Step 2B – Funding Plan Template for Income Sources

You might be able to secure some grants and crowdfunding which is reported as Other Income on the Income Statement and thus, is subject to taxation unlike Equity and Debt (Balance Sheet)

Step 2B Table

Income Source	Example	Amount
Crowdfunding - Social Network	GoFundMe	\$ 8,000
Grant - Local Disadvantaged	Economic Development Office	\$ 1,500
TOTAL INCOME FUNDING	Income Statement	\$ 9,500

Don't worry if your funding is taxed or not; just go out and raise the money to start your business. You keep 80% of what you raise through grants and crowdfunding



Step 2C – Funding Plan Template for Debt

Taking on debt should be minimized as you start out since you may not have any way of paying back the loans. Loans are best applied for specific asset purchases such as vehicles

Step 2C Table

Debt Source	Arrangement	Amount
Bank Line of Credit	Use for operating expenses	\$ 40,000
Term Loan - 5 Year on Vehicle	Asset backed financing	\$ -
Mortgage - Building	Asset backed financing	\$ 165,000
Credit Bureau Loan	Member related lending	\$ 22,500
Micro Loan - Non Profit Lender	Flexible lending	\$ -
TOTAL DEBT FUNDING	Balance Sheet - Liabilities	\$

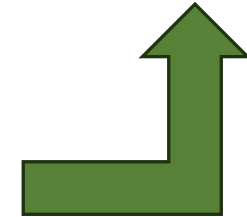


Step 2C – Funding Shortfall

Compare Total Estimated Costs per Step 1 to Total Funding per Step 2. The goal is to raise enough money to get to a breakeven point (sales revenues start to cover your monthly operating expenses)

Total Expected Funding per Step 2		\$	357,700
Total Estimated Costs per Step 1		\$	441,624
Shortfall in Funding	Need to Plan and Reduce	\$	(83,924)

It is extremely difficult to raise all of the money to fully launch your startup business. This is exactly why you should prepare a financial plan – is this financially feasible or not? If not, then you have to scale back and start off on a much smaller scale to prove your concept and grow into your final plan at a later date. See next slide for some ideas on how to adjust your plans.



Possible Adjustments to Original Plan

Most startup businesses will not get fully funded – this will require some modifications to your original plans. Here are some suggestions for making adjustments to your Funding Plan and Startup Costs:

- Reduce Startup Costs – Scale down the original startup plans and costs
- Incremental Startup – Launch at a smaller scale and move slower to reduce risk
- Soft Commitments – Document potential sales to key customers to help secure funding (proof points that validate your concept is real)
- Partners and Investors – Aggressively seek out partners and outside investors who can bring money and/or key resources to launch your startup
- Fin Tech Loans – Online Fin Tech banks may be able to provide some short-term loans in lieu of traditional banks which tend to be less flexible
- Extend Future Payments – If some of your startup costs involve key suppliers, negotiate new terms to reduce upfront investments



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Step 3 – Sales Revenue Forecast

This is the most difficult and subjective part of the entire process – how much do you think you can sell at what price. Invariably, people tend to over-estimate what they can sell. You should be realistic on the challenges of selling given competition, economic conditions, available resources, your experience, etc.

Type of Business	Sizing Parameter	Number Sold in Base Year 1	Sales Price per Unit	Estimated Sales Revenues – Year 1
Realtor	Houses	3	\$ 440,000 x 4%	\$ 52,800
Therapist	Sessions (2 hours)	95	\$ 75 per hour	\$ 14,250
Programmer	Projects (2 months)	5	\$ 7,500 per project	\$ 37,500
Roof Repair	Repairs (3 days)	32	\$ 4,300 per repair job	\$ 137,600
Floral Shop	Floral Arrangements	55	\$ 350 per arrangement	\$ 19,250



Sales Break Down by Months per Template

Most lenders and investors prefer a month-to-month breakdown for sales since there is a ramp up and seasonal flow to your revenues over the calendar year

Step 3 Table

Product 1: Portable Battery Standard Unit					
Calculation	Jan	Feb	Mar	Apr	May
Units Sold / Hours Billed	1	3	5	6	8
Price / Billing Rate	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Sales Revenue	\$ 1,200	\$ 3,600	\$ 6,000	\$ 7,200	\$ 9,600

If you have multiple products or service lines, then you will need to repeat the table above for each or come up with an overall blended calculation that takes everything into account.

EXAMPLE: Restaurants can use tables turned as the sizing parameter and make assumptions that the average sale ticket for a table is \$ 65.00 as opposed to pricing out every single menu item.



Defend Your Sales Forecast from the Bottom Up

- **Top-Down Estimate is Not Recommended:** The total market for our product is \$ 100 million and we think we can get 2% of this total market
- **Bottom-Up Estimates are Preferred:** You studied the market, the competition and potential customers to arrive at detail estimates on what you can sell
- **Comparable** – Find a very similar competing business and conduct research using databases at public libraries, pull off their financial data as a baseline
- **Lead Generation List** – You have a list of prospects that you can contact directly when launching the business and expect a conversion rate of 5%
- **Proven Past Execution** – You and your team have been successful with past launches, obtaining solid market traction in a reasonable time frame
- **Successful Crowdfunding Campaign** – You have already sold or pre-sold your product to early adopters to help finalize the design before market launch



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Key Terms: COGS and Operating Expenses

- **Cost of Goods Sold (COGS)** are costs that are directly related to the number of product units sold.
 - Examples: cost to manufacture product, shipping cost, merchant fees, etc.
 - Varies as a percentage of sales revenues (**Variable Expense**)
 - Note: Many one-person service businesses do not have COGS (owner's time is not considered variable; everything is considered operating expenses).
- **Operating Expenses** are costs that do not directly change with the number of products or services delivered.
 - Examples: Rent, salaries, insurance, utilities, accounting & legal fees, etc.
 - Does not vary with sales, fixed month to month (**Fixed Expense**)



Calculating Cost of Goods Sold – Two Ways

Detail Bottoms Up Estimate

Very accurate, but not easy to do

EXAMPLE: Making blue jeans requires:

1. Direct Materials – Fabric, buttons, zipper
2. Direct Labor – Seamstress who sews the pants
3. Overhead – Sewing machine and shop floor space in the factory

NOTE: Merchandise type businesses simply need to account for the full cost to land the finished product for resale. May need to include incidentals such as storage, inspection, shipping, insurance, etc.

Industry Benchmarks

Rough estimate, quick and easy to do

Every industry has financial benchmarks such as Gross Margin Percent. If you know the gross margin percent, then back into the Cost of Goods Sold percent

EXAMPLE: Restaurants typically have a gross margin around 30%. If your average ticket for a table is \$ 65 and 30% of this is gross margin, then the other 70% is the Cost of Goods Sold or \$ 45.50 for table turned



Step 4A – Calculating Cost of Goods Sold (Example)

Step 4A - Calculate Unit Cost for Each Product or Service Line:				
<i>Bottoms Up Approach</i>				
Product / Service Line	Direct Materials	Direct Labor	Overhead	Total Unit Cost
Product 1: Portable Battery Standard Unit	\$ 360	\$ 140	\$ 240	\$ 740
0				\$ -
0				\$ -
0				\$ -
0				\$ -

Exact estimate of what it takes to make or land the product in terms of all resources involved

<i>Industry Benchmark Approach (5 steps):</i>				
1	What is your business type?	Small Manufacturing of Equipment		
2	What is your industry gross margin?			35%
3	What is the sales price for your product?		\$ 1,250	
4	Gross Margin Amount per Unit		\$ 438	
5	Sales Price - Gross Margin = Cost of Goods per Unit		\$ 813	

Rough estimate of Variable Cost and Gross Margin per your re...
indust...



Capital Expenditures vs. Operating Expenses

Capital Expenditures (CapEx): Long Term Investments subject to Depreciation or Amortization

1. Building = 39-year life
2. Leasehold Improvements = 15-year life
3. Equipment = 5-to-7-year life
4. Furniture = 7-year life
5. Vehicles = 5-year life
6. Computers = 3-to-5-year life
7. Patents = 15-year life
8. Trademarks = 15-year life

Balance Sheet

Operating Expenditures (OpEx): Short Term (12 months or less) expenses to keep the business running day to day

1. Rent
2. Utilities
3. Payroll
4. Marketing
5. Insurance
6. Office Supplies
7. Maintenance
8. Professional Services

Income Statement



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Compile the Income Statement – Base Year 1

Break out by months and account for fluctuations during the calendar year

	INCOME STATEMENT FOR YEAR			2026
	Jan	Feb	Mar	
Sales Revenue	\$ -	\$ -	\$ -	
(See Step 3 for detail breakdown)				
Other Sources of Income	\$ 9,500	\$ -	\$ -	
Cost of Goods Sold	\$ -	\$ -	\$ -	
(See Step 4B for detail breakdown)				
Operating Expenses	\$ 2,420	\$ 4,270	\$ 6,670	
(See Step 4C for detail breakdown)				
Non Operating Expenses:	\$ -	\$ -	\$ -	
(See Step 4D for detail breakdown)				
PROFIT OR LOSS	\$ 7,080	\$ (4,270)	\$ (6,670)	

A compressed version is included for easy printing and inclusion in your business plan

	Income Statement				
	Mobile Energy USA				
	Calendar Year			2026	
Quarter 1 Jan - Mar	Quarter 2 Apr - Jun	Quarter 3 Jul - Sep	Quarter 4 Oct - Dec	TOTALS	
\$ -	\$ 162,000	\$ 681,250	\$ 550,000	\$ 1,393,250	
\$ 9,500	\$ -	\$ -	\$ -	\$ 9,500	
\$ -	\$ 99,900	\$ 403,300	\$ 325,600	\$ 828,800	
\$ 9,500	\$ 62,100	\$ 277,950	\$ 224,400	\$ 573,950	
\$ -	\$ 6,600	\$ 6,600	\$ -	\$ 13,200	
\$ -	\$ 690	\$ 690	\$ -	\$ 1,380	
\$ 5,600	\$ 10,250	\$ 10,800	\$ -	\$ 26,650	



Non-Operating Income and Expenses

The Income Statement is mostly operational in nature; but it can include some non-operating sources of revenues as well as expenses:

Non Operating Income:			
Sale of Fixed Assets			\$ 7,500
Investment Income	\$ 650	\$ 575	\$ 535
Grants			
Pitch Competition	\$ 1,000		

Non Operating Expenses:			
Depreciation on Fixed Assets	\$ -	\$ 2,673	
Interest Expense on Loan Payments	\$ -	\$ 10,404	
Corporate Taxes (State and Federal) *	\$ -	\$ -	
Total Non Operating Expenses	\$ -	\$ 13,076	



Most small businesses are pass through entities and thus, the business pay a corporate



Taxes Come Due on Actual Profits Earned

For most businesses that are pass through entities, taxes is NOT included in the Income Statement; but don't forget that you will owe taxes when you start to earn an actual profit

EXAMPLE: You need to withdraw \$ 65,000 from the business to cover your own personal living expenses. You need to generate a profit of approximately \$ 110,000.

Annual Income Goal Analysis	
Personal Income (Cash) Goal after Taxes:	\$65,000
Federal Self Employment Taxes (15.3%)	\$18,000
Federal & State Income Tax (16% + 4%)	\$22,000
Reinvest and Support the Business	\$ 5,000
Total Profit Goal for Business – Year 1	\$110,000

Key Point: The entire profits from your business is **not** fully available to support the business owner. You have to take into account both taxes and a reserve of funds to support the business going forward. **Set aside at least 25% of profits** to



Three Levers for Increasing Profits

When you look at your business financially speaking, you only have three (3) levers that you can pull on to improve profits:

1. VOLUME – Try and sell more products / services

To reach your profit goals, most businesses must spend time and resources on selling. Marketing is critical to execution!

2. PRICE – Try and increase your pricing

Customers must recognize value with your products and services when increasing prices. Be exceptional with your products / services

3. COSTS – Try and reduce expenses

Be careful as you cut costs since you do not want to undermine safety, quality, value and other attributes that allow you to capture and retain customers



Agenda

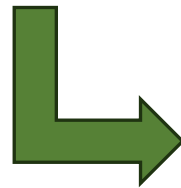
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Mapping out the Balance Sheet – Initial Setup

The Balance Sheet requires mapping out a **Chart of Accounts** to report all Assets, Liabilities, and Equity. Once this is established, then work through the transactions to arrive at the ending balances for each account that will form the Balance Sheet. Almost every transaction will pass through the Cash account.

Two special accounts are included: **Accumulated Depreciation** to write off Fixed Assets over time and **Retained Earnings** to close out the calendar year Income Statement



<u>Current Assets</u>	<u>Long Term Liabilities</u>
Cash	Loan Payable (5 Year)
Inventory	Mortgage Payable
<u>Long Term Assets</u>	<u>Equity</u>
Computers and Laptops	Contributed Capital - Owner
Furniture & Fixtures	Withdraw of Capital - Owner
Equipment & Machinery	Contributed Capital - Family
Leasehold Improvements	Contributed Capital - StartEngine
Land	Contributed Capital - Angel Investor
Building	Contributed Capital - Private Equity
Intangible Assets	Contributed Capital - Accelerator
Accumulated Depreciation	Donated Capital
<u>Current Liabilities</u>	Retained Earnings
Line of Credit	



Opening Balance – Start with Cash

Balance Sheet Accounts (Step 6A)	→		Cash	
Description of Transaction Event	Time Frame	Ref	Debit	Credit
Initial Funding per Step 2A	Pre Base Yr 1		\$ 133,600	
Opening Balances - January 1	Start Year 1	BS_1	\$ 133,600	
Work through transactions per your assumptions month to month:				
Pay monthly operating expenses	January	BS_2		\$ 2,420
Pay monthly operating expenses	February	BS_3		\$ 4,270
Pay monthly operating expenses	March	BS_4		\$ 6,670
Establish Bank Line of Credit	March	BS_5	\$ 10,000	
Purchase Land / Building	March	BS_6		\$ 70,000
Purchase Furniture and Fixtures	March	BS_8		\$ 6,500
Purchase Equipment and Machinery	March	BS_9		\$ 3,400
Leasehold Improvements	March	BS_10	\$ 3,500	
Purchase Computers, Laptops	March	BS_12		\$ 7,800
Purchase Patent	March	BS_13		\$ 6,000
	Cash Balance		\$ 40,040	

Unfortunately, to prepare an “air tight” financial model, you have to work through all transactions that go through the Cash account and account for the entries across all Balance Sheet accounts (Cash, Inventory, Equipment, etc.)

Some of your cash entries will hit the Income Statement such as paying Operating Expenses.

Goal is to make sure you account for all entries and everything balances: Total Debits = Total Credits



Posting Transactions Month to Month

You can group your month-to-month transactions into some common groups:

1. Sales to Customers = Cash deposited to your bank account from sales
2. Borrowings (Debt) = Cash deposited from loans
3. Paying various Operating Expenses – Cash disbursed to various vendors and employees
4. Distributions – Money paid back to the owners to recoup their investments
5. Monthly Debt Payments – Paying back loans
6. Inventory Build Up – Restocking inventory through purchases

	<i>Cash Balance</i>		<i>\$ 139,354</i>	
Sales to Customers	December		\$ 143,750	
Pay monthly operating expenses	December			\$ 28,120
Monthly Debt Payments	December	BS_23		\$ 15,066
Withdrawal to Owner	December			\$ 15,000
Inventory Devel - Materials, Labor, OH	December			\$ 88,800
	<i>Cash Balance</i>		<i>\$ 136,118</i>	
Post Depreciation Entries for Year	Catch Up Entry			
Balances at Year End			\$ 136,118	



Cash Shortfall per Step 6B - Revise Funding Plan

As you post entries to the Balance Sheet model in Step 6B, you will need to check your Cash balances. If the cash balance turns negative, then you will need to go back to Step 2 (Funding Plan) and document changes per Step 2D.

In the example below, April falls short of cash. This requires a major change in the funding plan which involves meeting with local government officials and securing an Economic Development Corporation (EDC) grant of \$ 50,000 by the end of March to ensure the startup business can execute correctly per the financial plan

	Cash Balance		\$ 40,040	
Additional Funding - EDC Grant	April	BS_14	\$ 50,000	
Pay monthly operating expenses	April	BS_15		\$ 11,170
Monthly Debt Payments	April	BS_16		\$ 7,340
Inventory Devel - Materials, Labor, OH	April	BS_20		\$ 55,500
	Cash Balance		\$ 16,030	

You need to maintain positive cash balances month to month



Total Debits = Total Credits after posting all entries

Balance Sheet Entries		Income Statement Entries	
Assets	Liab / Equity	Expenses	Revenues
Total Debits	Total Credits	Total Debits	Total Credits
\$ 2,875,892	\$ 2,562,954	\$ 999,062	\$ 1,312,000
\$ 3,874,954	\$ 3,874,954		
		\$ 312,938	
		\$ 312,938	

After posting all entries for the two financial statements (Balance Sheet and Income Statement), check your totals:

- Sum your total debits and credits for both the Balance Sheet and Income Statement
- Total Debits for all entries should equal Total Credits for all entries
- Difference between Total Debits and Total Credits for the Income Statement should tie back to the Profit or Loss shown on the Income Statement



Congratulations – You have built an air tight model with assumptions that are f by transactions that form a complete financial reporting model



Closing out the Calendar Year – Retained Earnings

The final entry to be made is close out the Income Statement and the difference (profit or loss) is posted to a special account in the Equity section of the Balance Sheet known as **Retained Earnings**

[illegible]

Balance Sheet – Recap Key Points

- Tangible Fixed Assets (Equipment, Vehicles, Machinery) – Don't forget to depreciate these assets over their useful life and reflect Depreciation Expense in the Projected Income Statement
- Loan Repayments – Must divide between principal (reduces the Liability on the projected Balance Sheet) and Interest Expense (reported on the projected Income Statement)
- Year End Close Out – Don't forget to zero out all Revenue and Expenses. The difference (profit or loss) is zeroed out and posted to Retained Earnings on the Balance Sheet
- Bad Practice – $Assets - Liabilities = Net\ Worth$. Prepare a real Balance Sheet that reflects what you have invested + Retained Earnings
- Equity vs. Income – Owner, Partner, Family investment = Equity. Grants, Crowdfunding, Competition and Crowdfunding are “Other Income” = Income Statement



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Step 7 – Compile the Cash Flow Statement

Go back to Step 6 and work through the Cash account. Compile the entries into a monthly Cash Flow Statement. For purposes of disclosing all expenses, we will list out all of the Operating Expenses

	Jan	Feb	Mar	Apr	May
Opening Balance	\$ 133,600	\$ 131,180	\$ 126,910	\$ 40,040	\$ 16,030
<u>Operating Activities:</u>					
Sales to Customers	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Operating Expense Payments:</u>					
Inventory - Restock	\$ -	\$ -	\$ -	\$ 55,500	\$ 59,200
Rent / Lease Payments	\$ -	\$ -	\$ -	\$ 2,200	\$ 2,200
Utilities - Electric, Water, Gas	\$ -	\$ -	\$ -	\$ 230	\$ 230
Payroll - W2 Employees	\$ 1,200	\$ 1,800	\$ 2,600	\$ 3,050	\$ 3,600
Labor - Sub Contractors 1099	\$ -	\$ -	\$ -	\$ 650	\$ 950
Research and Development	\$ -	\$ -	\$ -	\$ -	\$ -
Office Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Marketing and Promotion	\$ -	\$ 600	\$ 900	\$ 1,400	\$ 1,400
Travel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Legal Fees	\$ -	\$ -	\$ 500	\$ 500	\$ 500
HR Support	\$ -	\$ 650	\$ 650	\$ 650	\$ 650

To make the statement more useful, we will break out all cash flows into three main sections:

1. Operations
2. Investments
3. Financing



Cash Flow – Additional Points

- **Provide for Cash Cushions** - Seasonal businesses with slow periods will need to plan for cash cushions to get through lower sales periods
- **Recognize Timing Issues** - Cash flows often have timing issues such as when you get paid. Example: Government Contract is paid 60 days after you issue the invoice
- **Operating Expenses vs. Cash Flow** – The monthly operating expenses may not mirror exactly how your cash flow hits the bank account. Example: Vehicle insurance is paid every six months, but we show this expense month to month
- **Line of Credit** - Reduce risk to cash short falls by securing a Line of Credit when you do NOT need it
- **Know your Runway** – Calculate your monthly burn rate of cash in relation to your outstanding balance. Example: You are burning through \$ 5,000 of cash each month and your available cash is \$ 50,000 = 10-month runway before you run out of cash
- **Manage your Receivables** – Monitor and collect money owed to you; keep cash coming in
- **Turn over the Inventory** – Cash that is tied up through inventory needs to move – sell off excess inventory that becomes excessive and cash is drying up



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Step 8 – Assumptions for Out Years

Final Step – Document assumptions that you will apply to adjust Base Year 1 financials.

Most financial projections will include a growth assumption for sales in the out year:

Apply a growth assumption for increased sales:			% Change	Year 2 Amount
Total Units Sold in Base Year 1			1015	
Number of Months in Base Year 1 for Sales			7	
Average Sold per Month			145	
Growth Assumption for Year 2			154	6%
Month 1 Year 2 Units Sold Starts with			154	\$ 1,250
				\$ 192,125

A second common adjustment is to revisit your monthly operating expenses. How will it change next year – Rent is increased 3%, spend more on Marketing, grow the workforce, etc.



Step 8 – Beginning Balances for Year 2

Key Point – Your beginning balances for everything in the Income Statement is \$ - 0 – and the beginning balances for everything reported in the Balance Sheet is the year-end balances from Year 1

0	Point of Contact:	Balance Sheet		
1	Matt Evans	Mobile Energy USA		
2	mevanscpa@gmail.com	Calendar Year	2026	Year 2
3				Beginning
4			Totals	Balances
5	<u>Current Assets</u>			
6	Cash		\$ 136,118	\$ 136,118
7	Inventory		\$ 99,900	\$ 99,900
8				
9	Total Current Assets		\$ 236,018	
0				
1	<u>Long Term Assets</u>			
2	Computers and Laptops	\$ 7,800		\$ 7,800
3	Furniture & Fixtures	\$ 6,500		\$ 6,500
4	Equipment & Machinery	\$ 3,400		\$ 3,400
5	Leasehold Improvements	\$ 19,000		\$ 19,000
6	Land	\$ 15,000		\$ 15,000



Some Additional Resources

A few YouTube Videos worth checking out:

1. Accounting Stuff for Beginners > <https://www.youtube.com/@AccountingStuff>
2. Financial Statements Explained > <https://youtu.be/e8qbynFb4Zc?si=F7KYcb5FniWK5u1A>
3. Ten Tips for Building a Financial Plan > <https://youtu.be/Oqw1Rj0MVJo?si=N9fv3NMnbgsZwwgl>
4. Total Costs to Open Restaurant > <https://youtu.be/q9azMSrvQqw?si=AqDp0NQbwd5v-EbZ>
5. Total Costs to Open Coffee Shop > <https://youtu.be/VPUNN7OvITo?si=kZ8wutSkcd84zPmv>
6. Building a Financial Model from Scratch in Excel (90 minutes) > <https://youtu.be/Rmi9fwkJjHw?si=HGlj4f5Zk3a-pCmA>

As a SCORE Mentor, I also support the SCORE Model which is more comprehensive and covers 3 years



SCORE Alternative Model – Blank Version

SCORE Alternative Model – Sample



Next Steps

- Download the Excel Workbooks (3 versions – Sample and Blank Models)

www.startup-financial-plan.com

- Develop a good working draft for Base Year 1 and save the file as Base Year 1. You will return to the original model to build out additional years (3 years is recommended for most plans)
- Once you have a good working draft, schedule an appointment to finalize:

<https://dc-small-business-mentor.as.me/schedule/309365be>

My Email: mevanscpa@gmail.com

