

Guide to writing your finance plan

All of the plans and decisions that you have made will have financial implications. This is the time to “tie-up” your business plan by looking at the money to see if your enterprise is viable. Logically formulated finance plans based on actual facts and reasonable assumptions are of key importance. The finance plan will answer your questions including ‘How much will it cost to set up the enterprise?’, ‘How much will it cost in the first year?’, ‘How much income can we reasonably expect to make in the first year?’ and ‘Are we likely to go into deficit at any time?’

A finance plan will include:

- An initial capital requirement
- A cashflow forecast and usefully:
 - A profit and loss forecast
 - A breakeven level
 - A projected balance sheet

Initial capital requirement

As a new enterprise, it is essential that you have a clear understanding of the costs of setting up the enterprise prior to starting activity. This will help you to assess how much finance you will need to raise. Use appropriate headings, such as the following and make notes on how you came up with the figures:

	Cost
Premises/land (purchase price, building costs, rental/lease premium ¹)	£
Equipment/tools including office equipment	£
Transport (purchase price, lease premium, licence, insurance)	£
Insurance (public liability, employers liability, other)	£
Other (including e.g. telephone installation, materials/stock, wages (prior to starting))	£
Total start-up capital needed	£

¹ Lease premium is a lump sum payment to secure a lease

Cashflow forecast

The next step is to draw up a budget over at least one year. Generally speaking costs are incurred before incomes are realised. This means that you will need enough cash available to meet these bills as they become due. The cashflow forecast is perhaps the most important measure of financial health. It allows you to see where money is, where it is coming from and where it is going at any moment in time. It will highlight any times during the year when you will be in danger of going into debt that you will need to deal with. Bear in mind that more businesses cease trading due to cashflow problems than to profitability.

A cashflow form is shown in the centre of this sheet or you can use an electronic version. Complete it as best you can. Show your estimate of the money to be received or

spent in each month i.e. when the money will actually come out of or go into your bank account. The figures must include VAT, whether or not you are registered for VAT. Keep notes on the calculations and assumptions on which you have based the figures. Do be cautious in your estimates, slightly overstate your costs and slightly understate your incomes. It is better if the situation improves as estimates become realities, rather than the opposite!

The following explanation of terms should help:

- Capital introduced – money introduced by owners/members/partners/lenders etc
- Other income – include grants etc. here
- Total inflow – the addition of all the receipts expected
- Materials/stock – items bought for resale
- Rent & rates and Power/heat/light – items paid monthly/quarterly, etc. should be shown when payment is expected to be made
- Equipment purchases – the buying of new/second hand equipment (plant, machinery, large tools etc)
- Net cashflow – the difference between the monthly inflows and outflows (direct costs and payments)
- Closing bank balance – the net cashflow plus the opening bank balance will give the forecasted closing balance or overdraft at the end of each month.

Profit and loss forecast

The profit and loss forecast shows the income and expenditure in a period in which goods and services were provided. You can produce monthly, quarterly or annual forecasts.

The formula is:

Sales - direct costs (costs of sales i.e. materials and wages) - fixed costs (overheads including capital depreciation).



The key point about Profit and Loss is that it relates to a defined period. If bills are paid in advance then they relate to the future period. Sales in advance create an obligation to deliver the goods or services. It is an important principle of accounting to match costs and revenues to the correct time period.

Breakeven

It is useful to calculate a breakeven level. This is the level of activity at which

Total sales = total costs

Once this point has been reached then the business should be profitable year-on-year (although there may be seasonal losses within each year). To calculate your breakeven level of sales look at your fixed and variable costs. For example if your fixed costs are £1000, the variable cost is £5 and the suggested sales price is £10, you would need to sell 200 units to break even after which you would make a 'profit' of £5 for each sale.

Balance sheet

This is a statement of the assets and liabilities of the business and shows the financial position at a moment in time.

Assets = Liabilities + equity

Fixed assets include buildings and equipment and current assets are stock, cash, work-in-progress and debtors. Long-term liabilities include mortgages and loans and short term ones include overdrafts and short-term debts (creditors). Equity is retained earnings, investment by owners and stock. You can forecast a balance sheet.

**Further help –
www.businesslink.gov.uk**

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February 2009*