



Financial Management
for Growing Businesses

Financial Planning The Essentials

Introduction

Why do I need a financial plan?

A financial plan is the final stage of the business planning process and puts numbers to your ideas. It will show you whether or not your business plan is viable over the period you have funding and beyond. It is the document that the providers of finance are most interested in when they are making the decision whether or not to fund your business. It is also the document against which your business will be measured when you are trading.

The first rule of preparing a financial plan is Be Honest With Yourself. If you are honest with yourself you will be better able to prepare your plan and to sell it to others. You will not be disappointed if your wildly optimistic sales targets are not met and expenses are twice as much as expected. Nearly all plans are optimistic showing higher sales than those achieved and lower costs than those incurred.

What is a Financial Plan?

What does the financial plan comprise?

- ✓ A profit and loss account to show that the business is viable,
- ✓ A capital expenditure plan and
- ✓ A cash flow forecast to show where the peaks and troughs of cash are and how much finance you will require to start your business and to fund growth.

The profit and loss account keeps the score. Ultimately, you have to make a profit or you haven't got a business.

A capital expenditure plan defines the fixed assets which the business requires to operate and will include items such as computers, machinery and furniture. Such expenditure appears in the balance sheet as the assets have value to the business over a number of years. Fixed assets are depreciated over their expected useful life and it is this depreciation that is charged to the profit and loss account.

Cash is the single most important commodity. It is what you need to operate your business. Without a positive cash flow you cannot survive for long.

Where Do I Start?

The starting point is to define the period of the plan. A good plan will forecast for 5 years, with years one and two forecast by month and years three, four and five annually.

You need a summary sheet that you can present to providers of finance. Working sheets that give the detail will support this summary. Do not be brief, but use as much detail as possible to help you build an accurate picture of your business. The more detail you use to prepare your plan, the easier it will be to sell to third parties and the better you will be able to monitor what has actually happened in your business against what you planned. You will then be in a position to explain and learn from the variance between actual and plan. This is an important step in moving your business forward profitably.

Profit and Loss Forecast

Begin with sales and forecast them in detail. Your business plan should have defined your product lines. For each product line determine the volume and the price. Decide when you will have price increases and factor these in.

Match the sales with cost of sales. Again forecast these by product line, by volume and price. The net of your sales and cost of sales will give you your gross profit.

Expenses should be forecast in two categories:

- Your start up costs as these will be one off costs such as branding and web site design and

- Your on going costs such as salaries, marketing, rent, utilities and interest payments.

Your gross profit less expenses will give your profit or loss for the year.

Capital expenditure

Your capital expenditure plan will define the fixed assets you require for your business and when you need to purchase them. It will also define whether you will purchase the assets outright, lease them or fund them by loans.

You need to decide on the level of capital expenditure for the business. The method of funding will determine the cash flow; outright purchase will be a single outflow where as leasing or loan finance will be a monthly cash flow.

Cash flow forecast

Preparing an accurate cash flow is time consuming but is critical in determining how much finance you will require to start up your business and what ongoing level of overdraft you will need to manage the peaks and the troughs.

Take your forecast profit and loss account as a starting point. For each line in your profit and loss account determine when you will either receive or make a payment.

Your profit and loss account excludes VAT, but this is a cash flow and needs to be included on the cash flow statement. Include three separate lines for VAT – received from sales, paid on cost of sales and paid on expenses. VAT is paid to HMRC quarterly, one month after your quarter end so this will need to be factored in. But remember, in the short term VAT can be a source of finance.

Add your capital expenditure item by item. This will help you to keep track of each item and to include any financing repayments accurately.

And finally....

A financial plan should not be a one off exercise when a business is starting. The process should be repeated on a regular basis. How regular depends on your business and the accuracy of your current plan. At any one time you should have the next 24 months' planned by month and three years by year.

Do not file the plan in the drawer and forget about it. Use it to monitor how your business is doing, understand any significant variances and take appropriate action to make sure you achieve your vision for your business.

Contact JMA Solutions

22 Dunmow Hill
Fleet
Hampshire
GU51 3AN

Telephone 01252 615490

Mail@jmasolutions.co.uk
www.jmasolutions.co.uk