

THE BUSINESS ENTERPRISE CENTRE'S GUIDE TO  
**PROJECTING YOUR FINANCIAL STATEMENTS**

2020



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# PREFACE

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Projecting your revenues and expenses are a crucial part of determining the viability of your business idea. Communicating these projections is essential for a business seeking **financing** or **funding**. The Business Enterprise Centre's Financial Statements Template assists entrepreneurs with both of these tasks. This workbook will help you project:

- Your start-up costs
- Your monthly revenues and expenses
- Your **break-even point**
- Your loan amortization schedule
- Your capital expenditures depreciation schedule
- Your income tax (rough estimate only)
- Your financial statements: income statement, balance sheet, and cash flow statement

For your business plan, it is suggested that you provide financial projections for the first three years. The Template walks you through these projections on a month-to-month basis, then provides an annual summary in the financial statements. These statements demonstrate whether or not your business is sustainable.

This guide works directly with The Business Enterprise Centre's Cash Flow Template. Ensure to have the template available as you work through the guide instructions.

The **bold blue words** found throughout the guide are key terms with definitions located in the Glossary, page 26, for easy reference.

The Business Enterprise Centre offers a wide range of free services and resources for entrepreneurs interested in starting, buying, or expanding their business. Contact us today to learn how we can help you.

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# GUIDELINES

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Remember the following points while working with The Business Enterprise Centre's Cash Flow Template:

- Before starting on the template, create a new version (i.e. select "Save As" and name it something different, like "Financial Statements version 1"). This will leave a blank version of the template in case you need to start over.
- Only input data in the white cells unless directed otherwise. Avoid editing the spreadsheet on your own as there are many formulas in place which altering/deleting will affect the entire workbook.
- You may edit the table yourself by selecting the "Review" tab on the Excel toolbar and clicking "Unprotect Sheet". Please note that editing the sheet and formulas may create errors in the calculations.
- If you encounter any difficulties or questions, discuss the situation with your Business Consultant. This is especially important when making changes to the template.

# START-UP COSTS

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For the purposes of your cash flow projection, **start-up costs** are defined as costs incurred before the business is opened. The use of the term ‘start-up costs’ may vary amongst different funding and financing organizations; ensure to read funding and financing **terms** carefully to understand cost eligibility.

## Data Inputs

Answer the following questions to prepare the data needed for your start-up costs projection.

### Source of Start-Up Monies

How much money do you have to invest?

- Personal investments: \$ \_\_\_\_\_
- Grants or loans: \$ \_\_\_\_\_

What are the terms associated with the money? \_\_\_\_\_

What do you need to invest in to get started?

### Product/ Service-Related Costs

- **Inventory** \$ \_\_\_\_\_
- Raw materials/ supplies \$ \_\_\_\_\_

### Capital Expenditures

- Equipment \$ \_\_\_\_\_
- Furniture and fixtures \$ \_\_\_\_\_
- Website \$ \_\_\_\_\_
- Leasehold improvements \$ \_\_\_\_\_

## General Expenses

• Premises rent/ purchase	\$
• Business licences and permits	\$
• Insurance	\$
• Legal fees	\$
• Accounting/ bookkeeping	\$
• Bank charges	\$
• Advertising and promotion	\$
• Office supplies	\$
• Training	\$
• Subscriptions/ memberships	\$
• Software	\$
• Other: _____	\$
• Other: _____	\$
• Other: _____	\$

## Working Capital

**Working capital** is defined as the amount of a company's assets minus the amount of its liabilities. For a start-up business, working capital is money the business needs to continue operating until it is profitable. The amount of working capital a start-up needs varies depending on its operating cycle cash needs - how much cash does it take to run your business for a given period of time? Commonly, businesses calculate their working capital needs as six months of cash flow plus a 10 or 15 per cent cushion. The template does not ask you to calculate your working capital requirements, but this is something you should be doing on your own. How much working capital will your business need?

## Entering Your Start-Up Costs in the Template

Now that you have collected the pertinent data, you are ready to develop your start-up costs projection. Open The Business Enterprise Centre's Financial Statements Template and select the 'Start Up Costs' worksheet from the tabs at the bottom of the page. If you haven't already saved a new version of the template, now is the time to do so (select "Save As" under the File heading and name the workbook something new).

1. In cell B1 where it says "Business Name Here", enter your business name.
2. In cells F4, G4, and H4 where it says "Loan/ Grant 1, 2, 3", enter your sources of start-up funding (i.e. NOHFC Grant, Bank Loan, Line of Credit, etc.). Have you received a loan, grant, or some other investment? Do you have a line of credit? Name them.
3. In column B under "Item", list all your start-up costs. Suggestions are already provided. You can name other costs in the cells that say 'Additional start-up cost 1, 2, and 3'. You can also change the start-up costs named in the white cells (e.g. training, furniture) if they do not apply to you.
4. In column C under "Cost of Items", enter the cost of each start-up requirement.
5. In columns D, E, F, and G, determine which costs and how much of each cost will be covered by each of your financial sources. Enter the costs accordingly.
  - a. When assigning the costs to grants and/ or loans, ensure that the cost is eligible to be covered by that grant/ loan. Also keep an eye on the TOTALS row to ensure that you do not exceed the amount of your loan or grant.
6. In row 33, compare the "TOTALS" to your actual funds available to ensure that you have not exceeded the amount of your grant or loan. If you do, you will either have to reduce the expense, or increase your contribution and/or use your line of credit. Redistribute costs as required.
7. In row 34, compare the "Percentage Contribution" to any funding or financing guidelines to ensure you are not exceeding coverage percentages. Redistribute costs as required.
8. In column J under "Totals - Check", compare the amounts listed to those in column C "Cost of Items". All amounts should match. If they do not, not all costs are accurately distributed amongst funding sources. Correct until all numbers match and cell J34 reads "100%".



# PROJECTION WORKSHEETS

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When you have completed your start-up costs projection, you are ready to project your first three years of operations. This data will be used to populate your projected financial statements.

## Data Inputs

Answer the following questions to prepare the data needed for your projection worksheets.

### Products/ Services for Sale

What will you be selling? Group your products/ services into no more than 10 categories.

1	_____	6	_____
2	_____	7	_____
3	_____	8	_____
4	_____	9	_____
5	_____	10	_____

### Products/ Services Pricing

What will you charge for your products/ services? Assign an average price to each category.

1	\$	_____	6	\$	_____
2	\$	_____	7	\$	_____
3	\$	_____	8	\$	_____
4	\$	_____	9	\$	_____
5	\$	_____	10	\$	_____

What will your monthly cash inflow be?

Projecting your sales can be very challenging, but there is a lot of evidence which you can use to increase your accuracy. Using evidence is important, because it supports your claims and allows you to explain your projections. The market analysis developed in your business plan should steer your sales projections.

- **Target Market** and **Market Share**: how many customers are there in your target market? What percentage of them are you likely to sell to? Remember that you have competitors who are also trying to sell to them.
- **Daily/ Weekly Sales Patterns**: it can be difficult to estimate sales quantities for a month. However, it is easier to project sales quantities for a day or a week. When making your projections, consider how many of each product or service you are likely to sell on a weekday or weekend, and use these numbers to shape your monthly projection.
- **Novelty**: many businesses experience an initial boost in sales when they first open as customers investigate their options. Once the novelty has worn off, sales figures drop to a lower rate.
- **Customer Base Growth**: in contrast to the influence of novelty, some businesses need time to build their customer base and reputation.
- **Seasonality**: many businesses are affected by seasonality. Their sales fluctuate throughout the year.

Keep these points in mind while filling out the following table. Also remember: it is always better to be conservative and aim low for your sales projections, than to be optimistic and aim high.

In the Project Sales table, estimate how many of (quantity, not cash value) of each of your product/ service categories you will sell per month. For example, a florist may have 'Small bouquet' as one of his categories. How many small bouquets does he think he will sell in his first month? This number will be influenced by the size and purchasing patterns of his target market, his projected market share, his daily and weekly sales patterns, whether his customers are driven by novelty or relationship, and the season.



What will your monthly cash outflow be?

**Cost of Goods Sold**

Inventory	\$
Raw materials/ supplies	\$

**Owner's Draw**

Will you take an **owner's draw** or a **salary**?  
Amount per month: \$

**Capital Expenditures**

What **capital expenditures** will you incur during the year?

- Equipment \$
- Furniture and fixtures \$
- Leasehold improvements \$
- Other: \$
- Other: \$
- Other: \$

## Employment-Related Costs

Will you have employees?

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If yes, what are your costs?

- Employee wages \$

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- What is your **WSIB rate**? %

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- Other **benefits** (if applicable) \$

---
- Contractor(s) pay \$

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If you will have employees, you need to know about Mandatory Employment Related Costs (MERCs). These costs will be automatically calculated for you in the template.

- **WSIB:** employers are required to provide WSIB coverage for all employees. The rates vary by sector; find your rate on the WSIB website: [www.wsib.on.ca](http://www.wsib.on.ca)
- **Employment Insurance – for Employees:** all regular employers must contribute to Employment Insurance. This will be automatically calculated for you (employees are taxed 1.88%, and employers contribute 1.4x the employees' contribution).
- **Employment Insurance – for Owners:** business owners may choose to voluntarily register for Employment Insurance; it is not required that owners do so. In this case, the owner would pay the regular Employment Insurance rate (1.88%). Note that any owner who registers for Employment Insurance is ineligible to apply for the insurance until at least 12 months after registering. If you plan to register for Employment Insurance, work with your Business Development Consultant to add the appropriate amounts to your cash flow projection.
- **Canada Pension Plan (CPP):** calculating your Canada Pension Plan contributions depends on your draw/ salary, your employees' wages and your pay period structure. Since this is a monthly cash flow, it uses a monthly pay period to estimate your contributions to your employees' CPP. Your estimated CPP contributions are automatically calculated for you (employees contribution rate of 4.95%, employers match that amount). Note that this is only a rough estimate. This formula cannot be used to formally calculate your CPP contributions.
- **Vacation pay:** vacation pay is legally required for wage employees, at a rate of 4%. Salaried employees usually receive vacation days in place of vacation pay. Work with

your Business Development Consultant to ensure that the amounts calculated in the spreadsheet are accurate to your employee's situation(s).

General Expenses	
Premises rent/ mortgage	\$ _____
Business licences and permits	\$ _____
Insurance	\$ _____
Legal fees	\$ _____
Accounting/ bookkeeping	\$ _____
Bank charges	\$ _____
Advertising and promotion	\$ _____
Office supplies	\$ _____
Training	\$ _____
Subscriptions/ memberships	\$ _____
Software	\$ _____
Utilities	\$ _____
Debit/ credit service expense	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____
Other: _____	\$ _____

## Preparing Your Cash Flow Projection

Open The Business Enterprise Centre's Financial Statements Template and select the 'Projection Worksheet Year 1' worksheet from the tabs at the bottom of the page.

Note that data has carried over from your Start-Up Costs.

Before you start calculating your projected cash flows, note that cash inflows and outflows are recorded in the periods they are received or paid. This projection worksheet uses **cash-based accounting** rather than **accrual accounting**. For example, a plumber can invoice for a service performed in February but may not receive the payment until May. The plumber's cash flow would not record the payment until May. Similarly, if your business ordered some supplies and received an invoice for them, the cash flow would reflect when this invoice was paid, not when the supplies and/ or invoice was received.

### Worksheet Set-Up

1. In row 2 where it reads "For year: MM/YYYY to MM/YYYY", enter your first month and year of business in cell D2 and the last month and year of your fiscal year in cell F2 (e.g. 'Sept 2016' and 'Aug 2017').
2. In row 3 where it reads "Month 1, 2, 3...", add in the month names, starting with your first month of operation. This is the only time you should be editing a blue cell.
3. In column B under "Projected Sales" rows 5-14, add in the product or service categories your business sells.
4. In column B where it reads "Loan/ Grant 4", identify any other grants or loans that you plan to receive during your business year. More lines can be added if needed. The monies used to cover your start-up costs are already listed.
5. In column B row 50, under "Employment-Related Expenses", add any benefits you plan to offer your employees (e.g. health plan).
6. In column B row 61, under "Capital Expenses", add any other capital expenditures you plan to incur. Work with your Business Development Consultant if adding rows to ensure that the rows are added with the proper formulas.
7. In column B rows 79-81 under "General Expenses", add any other general expenses you have. You can name other costs in the cells that say 'Operating expense 1, 2, 3'. Work with your Business Development Consultant if adding rows to ensure that all the appropriate expenses are included and that the rows are added with the proper formulas.
8. In column B rows 85-86, under "Other Disbursements" where it reads "Loan 1, 2 Repayment", enter the names of any business loans (e.g. CFDC Loan).

## Cash Inflow

9. In columns E to P rows 5-14, project how many of each product or service category you will sell per month.
10. In column D under "Avg \$" rows 17-26, enter the average price of each product or service category. Your 'Cash Inflow' from your product/ service lines will automatically populate.
11. In columns E to P rows 29-33, enter any additional sources of cash inflow you project to receive. This is where you would enter injections of cash from **working capital**, if needed.

## Cash Outflow

12. **Cost of Goods Sold**: In columns E to P rows 39-39, enter your inventory and/ or raw materials/ supplies costs. These are costs associated with the products or services you are selling. Ensure to relate these costs to your projected sales - you must have enough product to meet your demand.
13. **Owner's Draw**: In columns E to P row 42, record your **owner's draw** or **salary**. If you're your business is a partnership, work with your Business Development Consultant to add another line. If your business is a corporation and you intend to receive pay through dividends or other means, work with your Business Development Consultant to reflect this correctly on your financial statements.
14. **Employment-Related Expenses**: If you have employees, enter your employees' monthly gross wages in columns E to P row 44.
15. If you have employees, enter your WSIB rate in cell D46 under "Rate".
16. **Capital Expenses**: if you plan to invest in **capital expenditures** during the year, enter the amount(s) spent in the appropriate month(s) in columns E to P rows 54-61.
17. **General Expenses**: In columns E to P rows 64 to 81, enter all your business **operating expenses** per month.
18. Other **Disbursements**: other disbursements include loan repayments and income tax. Instructions for this section are included in the *Amortization Schedule* (page 18) and *Income Tax Projector* (page 19) sections.



19. Review your Cumulative Cash Flow in line 92. If any amounts are negative (red) you will need to adjust your figures until they are positive. As this projection worksheet works with projected cash revenues and expenses, negative (red) cumulative cash flow means that you have spent money you do not have. There are three options to address negative cumulative cash flow:

- a. Increase revenue: increase your sales quantity or prices. You must have a justification to do this - there is a reason you originally projected your sales and prices for the amounts they are. How will you justify the increased sales quantity or prices? How are you changing your business plan?
- b. Decrease expenses: reduce or eliminate some business expenses.
- c. Inject cash: inject cash from another source (i.e. working capital) into your business. This is only an option to assist with capital expenditures or your start-up period; it is not a sustainable option in the long-term.

20. Repeat steps for Cash Flow Year 2 and 3.

# AMORTIZATION SCHEDULE

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If you require a business loan, an **amortization schedule** can forecast what your principal and interest payments will be for the duration of the loan term. This information is valuable to include in your projections to demonstrate that you can afford your loan repayments. If you do not have a loan, leave this worksheet blank.

This amortization schedule forecasts a fixed monthly loan repayment for a term of up to 36 months (three years). If your loan term is longer or shorter than this, work with a Business Development Consultant to tailor the schedule, or edit it yourself by selecting the “Review” tab on the toolbar at the top of the page and clicking “Unprotect Sheet”. This will allow you to edit the spreadsheet and add or delete extra rows.

### Data Inputs

Proposed Financing Terms	
What is your loan amount?	\$ _____
What is your interest rate?	_____ %
What is your repayment term in months?	_____ months
What is the first month of loan repayments?	_____

### Preparing Your Amortization Schedule

Open The Business Enterprise Centre’s Financial Statements Template and select the ‘Amortization Schedule’ worksheet from the tabs at the bottom of the page. If you have more than one loan, work with your Business Development Consultant to create a second Amortization Schedule to your projections.

1. Enter your loan amount in cell D5, your interest rate in cell F5, and your repayment term in cell H5.
2. Enter the first month of loan repayments in cell C8. In column C, continue listing the months of your loan repayment for the duration of the repayment term.
3. Your monthly payment is calculated in column E. Enter this amount in your Projection Worksheet row 85 for the duration of your repayment term.

# CAPITAL DEPRECIATION SCHEDULE

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Any **capital expenditures** you invest in will **depreciate**: they lose their value over time. Eventually, they will have no value and will likely need to be replaced. Capital expenditures are those that have value for longer than a given period of time (e.g. one year), or will not be ‘used up’ within the given period of time. Therefore, a desk chair is a capital expenditure, but office supplies such as paper is not.

To fully plan your business, you should plan for capital expenditure depreciation, sale, and replacement. Furthermore, to accurately project your financial statements, we must consider the current value of your **assets**. If your business buys an office chair one year for \$250, this asset is worth less the next year, and even less the year after that. If you decide to sell the office chair in its third year, you’ve sold a physical asset and gained cash. The Capital Depreciation Schedule allows you to projection asset depreciation over three years, and the Capital Expenditures Disposal Projection allows you to plan the sale of assets, if applicable.

## Data Inputs

Fill out the following tables with this information:

- **Item**: what are you buying? Be specific (e.g. laptop, desk, website).
- **Price**: how much are you paying?
- **Effective Life**: how many years will you be able to use this item before you need to replace it or dispose of it? This information is not always obvious, but internet research can help you find out (e.g. search for “average laptop lifespan”).
- **Salvage Value**: when it’s time to replace or dispose of the item, will you be able to sell it, and for how much? If you can’t sell it, just enter the value as \$0.
- **Disposal Fees**: cost to have an asset removed, recycled, decommissioned, brought to the landfill, etc.

## Start-Up Acquisitions

Item	Price	Effective Life (years)	Salvage Value
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$

## Year 1 Acquisitions

Item	Price	Effective Life (years)	Salvage Value
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$

### Year 2 Acquisitions

Item	Price	Effective Life (years)	Salvage Value
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$

### Year 3 Acquisitions

Item	Price	Effective Life (years)	Salvage Value
	\$		\$
	\$		\$
	\$		\$
	\$		\$
	\$		\$

Are you planning to dispose (sell, recycle, or trash) of any of your capital expenditures in the first three years? Hint: this is likely if they have an effective life ending within the three years. If this is part of your plan, fill out the following table.

### Capital Expenditures Disposal

Item	Year of Disposal	Salvage Value	Disposal Fees
		\$	\$
		\$	\$
		\$	\$
		\$	\$
		\$	\$

### **Preparing Your Capital Expenditures Depreciation Schedule**

1. Enter the names of the item(s) acquired in column B in the appropriate year.
2. Enter the prices of the item(s) acquired in column C.
3. Enter the effective life of the item(s) acquired in column D. If the effective life is less than one year, it is not a capital expenditure and should not be included in this list.
4. Enter the salvage value of the item(s) acquired in column E. If there is no salvage value (item cannot be resold or recycled for value) leave this at 0.
5. Depreciation per year and the closing values of your assets are automatically calculated and entered into your income statement and balance sheet.

### **Preparing Your Capital Expenditures Disposal Projection**

Only use this table if you plan to dispose (sell, recycle, or trash) of any assets during your projected three years. If you do not plan to do this, leave the table blank.

6. Enter the name of the item(s) to be disposed of in column B in the appropriate year.
7. If applicable, enter the item(s)' sale price in column C.
8. If applicable, enter the item(s)' disposal cost in column D.
9. The net gain/ loss is automatically calculated and entered into your income statement and cash flow statement.

# INCOME TAX PROJECTOR

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The Business Enterprise Center Financial Statements Template's Income Tax Projector provides an estimate of the income tax for a sole proprietorship or general partnership. The formulas used are not applicable to corporations. The tax estimates resulting from the spreadsheet are to be used as rough estimates only.

For simplicity's sake, the Income Tax Projector automatically estimates your income taxes for your fiscal year. However, actual taxes are calculated based on the calendar year. Depending on your annual business cycle and growth over time, this may have an insignificant or quite significant impact on your income tax projection. Discuss with your Business Development Consultant whether this should be altered.

Note that the income tax disbursement is reflected in the period it is paid out. Many small businesses, particularly sole proprietors, calculate income taxes at year end and pay what they owe in one lump sum. Other businesses choose or are required to remit income taxes more frequently, but this is usually only dictated following the first or subsequent tax filings. If you will be paying your income tax for Year 1 during Year 2 (as most business would), then this amount should only be entered in the Year 2 cash flow.

## Projecting Your Income Tax

Open The Business Enterprise Centre's Financial Statements Template and select the 'Income Tax projector' worksheet from the tabs at the bottom of the page.

1. Your income tax estimate for Years 1 and 2 are calculated in cells F28 and H28.

Select the 'Projection Worksheet Year 2' worksheet from the tabs at the bottom of the page.

2. Input your income tax estimate for Year 2 (based on Year 1 income) into your Projection Worksheet Year 2 Other Disbursements in row 84. You must determine which month(s) you intend to pay your income tax. You may choose to put the money aside monthly, quarterly, or annually. Keep in mind that your calendar year and your fiscal year likely do not align. Ensure that you are planning to pay your income tax within the correct year. Annual tax returns are generally filed between February and April of the following year.
3. Repeat for Projection Worksheet Year 3 and your Year 3 income tax estimate (based on Year 2 income).

# BREAK-EVEN ANALYSIS

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Break-even occurs when the costs of a business equal the revenues. This number tells you at what point you have covered your annual expenses for the business. Your **break-even point** can be measured in units (how many units you sell) or revenue (how much you make).

The Business Enterprise Center Financial Statement Template's Break Even Analysis provides two calculations - your currently projected break-even point based on the numbers forecasted in your cash flow, and your potential break-even point based on any scenario you choose. What if your forecasted sales were actually 50% less? What if your variable costs increased by \$2.00 per unit? These tables allow you to forecast how these changes would affect your business.

A break-even analysis differentiates between variable and fixed costs. **Variable costs** are costs that increase or decrease with your business volume. They include direct labour, materials or supplies used to produce your product or deliver your service and inventory. **Fixed costs** are costs which do not automatically fluctuate with changes in volume. These include rent, utilities, salaries, insurance, etc. Please note that these **DO NOT** include your start-up costs.

## Calculating Your Break-Even Point for Your Current Projection

All the data from your Projection Worksheet Year 1 has automatically populated your break-even analysis. However, your break-even analysis graph will not display data until you enter a unit increment for the X axis.

1. Your break-even point in units is calculated in cell C41 and your break-even point in revenue is calculated in cell C42.
2. Determine what unit increment you would like to use for the X axis. The X axis displays number of units sold (of products and services). The unit increment provides the axis increment. Some businesses sell a very high volume of goods, and would have a very high unit increment. For example, a corner store might have a unit increment of 1000. Other business sell a smaller volume of goods, and therefore have a smaller increment. For example, a general contractor might have a unit increment of 5. Enter your unit increment in cell I19. You can experiment with this number and see what displays data on your graph most effectively.
3. Your break-even analysis graph now displays information about your current cash flow projections. The X axis is a measure of units sold, and the Y axis is a measure of dollars. You can use this graph to measure your costs, revenue, and profit at a given point.



## Forecasting Your Break-Even Point for a Scenario

The second page of the break-even analysis is your Scenario Builder. It allows you to ask, “what if?” with your data.

4. Determine what scenario you want to forecast. Changes may affect two aspects of your business: your revenue or your expenses. These may happen four ways:
  - a. Increase/ decrease in the average prices of your products/ services.
  - b. Increase/ decrease in the number of units sold of your products/ services.
  - c. Increase/ decrease in your fixed costs.
  - d. Increase/ decrease in your variable costs.
5. In column P rows 8-17, enter your average prices per product/ service category.
6. In column Q rows 8-17, enter your number of units sold annually per product/ service category.
7. In cell P24, enter your total annual variable costs. This includes both inventory and raw materials/ supplies.
8. In column P rows 31-35, enter your annual fixed costs.
9. Your break-even point in units is calculated in cell P41 and your break-even point in revenue is calculated in cell P42.
10. Determine your unit increment for the X axis and enter it in cell V19.
11. You can now compare your break-even analysis scenario with your actual projection. How does your scenario differ from your projection? What will you do with this information?

# PRO FORMA INCOME STATEMENT

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An **income statement** is a financial statement that measures a company's financial performance over a specific accounting period, typically over a fiscal quarter or year. Income statements help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of generating future cash flows through report of the income and expenses.

Most start-ups are not required to provide income statement projections. Existing businesses generally are expected to include them. It is your choice whether to include this financial projection in your business plan or not.

This template creates a multi-year income statement, which means that it displays multiple years' financial performance in one statement. Almost all of the statement is automatically populated by the information entered on other worksheets. The only information that is still required is "Income/ Loss from Non-Recurring Items". This is where you would include one-time events not captured elsewhere in your worksheets.

Every business is unique, and your income statement must reflect this. Work with your Business Development Consultant to ensure that your income statement accurately reflects your financial projections.

# PRO FORMA BALANCE SHEET

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While an income statement shows how a business is doing over a period of time, a **balance sheet** provides a snapshot of the business' financial condition at a given point in time. A balance sheet represents three aspects of your business: **assets**, **liabilities**, and **owner's equity**. It is called a balance sheet because assets minus liabilities (net assets) must equal the owner's equity (they must balance).

Again, most start-ups are not required to provide income statement projections. Existing businesses generally are expected to include them. It is your choice whether to include this financial projection in your business plan or not.

This template creates a multi-year balance sheet, which means that it displays multiple years' financial performance in one statement. Almost all of the statement is automatically populated by the information entered on other worksheets. The following information must be filled in manually:

- **Accounts receivable**: what money is still owed to you by your customers? Businesses who only accept upfront payment should not have accounts receivable.
- **Prepaid expenses**: what services have you paid for in advance? For example, a multi-year cleaning service contract or advertising contract.
- **Accounts payable**: what money do you still owe? This would be money that you owe to suppliers and service providers. Any bank loan is covered under the category of "Long-term debt" and is not included here.
- **Other liabilities**: do you have other debt? Include it here.

Once this information is filled in, you can double check that it is accurate with this simple trick: "TOTAL ASSETS" should equal "TOTAL LIABILITIES AND EQUITY". Work with your Business Development Consultant to ensure that your balance sheet accurately reflects your financial projections and these amounts balance.

# PRO FORMA CASH FLOW STATEMENT

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A **cash flow statement** reports the outflow and inflow of cash during a specified time period. This statement demonstrates your cash flow strength to investors. A cash flow statement is the most common financial statement required for a business start-up seeking financing or funding. Therefore, all business plans should include a cash flow statement.

The cash flow statement is particularly important for companies who use **accrual accounting**. The income statements they release each quarter may not necessarily reflect changes in their cash positions.

For example, if a company lands a major contract, this contract would be recognized as **revenue** (and therefore **income**), but the company may not yet actually receive the cash from the contract until a later date (it is an **account receivable**). While the company may be earning a profit in the eyes of accountants (and paying income taxes on it), the company may, during the quarter, actually end up with less cash than when it started the quarter.

This template creates a multi-year cash flow statement, which means that it displays multiple years' financial performance in one statement. All of the statement is automatically populated by the information entered on other worksheets.

# GLOSSARY

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**Accounts receivable:** a legally enforceable claim for payment from a business to its customer/clients for goods supplied and/or services rendered in execution of the customer's order.

**Accounts payable:** money owed by a business to its suppliers shown as a liability on a company's balance sheet.

**Accrual accounting:** an accounting method that records revenues and expenses when they are incurred, regardless of when cash is exchanged.

**Amortization schedule:** a table detailing each periodic payment on an amortizing loan (typically a mortgage), as generated by an amortization calculator. Amortization refers to the spreading of payments for loans or intangible assets over multiple periods.

**Assets:** the resources that a business uses to operate its business such as cash, inventories, land and buildings, and equipment. Essentially, assets are any items of value owned or controlled by the business that contributes towards generating revenue. Assets are categorized as either current or non-current assets.

**Balance sheet:** a financial statement which demonstrates a business' state at a given point in time and provides a snapshot of the business' financial condition.

**Benefits:** various types of non-wage compensation, including housing, group insurance (health, dental, life etc.), disability income protection, retirement benefits, daycare, sick leave, vacation, social security, education/ training funding, etc.

**Break-even point:** the point at which your costs and expenses and revenues are equal. It can be measured in units sold or revenue earned.

**Capital expenditures:** an amount spent to acquire or improve a long-term asset such as equipment or buildings. Usually the cost is recorded in an account classified as Property, Plant and Equipment. The cost (except for the cost of land) will then be charged to depreciation expense over the useful life of the asset.

**Cash-based accounting:** a method of accounting in which transactions are recorded at the time cash is actually received or paid out.

**Cash flow statement:** reports the cash generated and used during a specified time period.

**Cost of goods sold:** the direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labour costs used to produce the good.

**Depreciation:** the allocation of an asset's costs among the periods that an asset is expected to be used; or, the decline in value of an asset over time.

**Disposal fees:** the cost associated with having an asset removed, recycled, decommissioned, brought to the landfill, etc.

**Disbursement:** the payment of money from a fund or account.

**Effective life:** the duration an asset can be used to produce income

**Financing:** the act of obtaining or furnishing money or capital for a purchase or enterprise; often refers to monies that must be repaid.

**Fixed cost:** a cost that does not automatically fluctuate with changes in volume. These include rent, utilities, salaries, insurance, etc.

**Funding:** money provided, especially by an organization or government, for a particular purpose; usually refers to monies that are granted and do not need to be repaid.

**Income:** all monies received, including but not limited to revenue, government funding, grants, loans, interests, etc.

**Income statement:** a financial statement that measures a company's financial performance over a specific accounting period, typically over a fiscal quarter or year. Income statements help investors and creditors determine the past financial performance of the enterprise, predict future performance, and assess the capability of generating future cash flows through report of the income and expenses.

**Inventory:** the merchandise or stock a company owns that are destined to be sold to the end-user.

**Liability:** the financial obligations or debts of the business and include claims that creditors have on the business's resources such as **accounts payable**, bank overdrafts, provision for employees' annual leave and long service leave, tax liabilities, and loans payable. Essentially, liabilities are amounts owed by the business to external parties. Liabilities are categorized as either current or non-current liabilities.

**Market share:** the percentage of a total market (either units or revenue) that goes to an individual firm.

**Novelty:** the quality of being new, original, or unusual.

**Operating expenses:** those expenditures that a business incurs to engage in any activities not directly associated with the production of goods or services. These expenditures are the same as selling, general and administrative expenses.

**Owner's draw:** the amount taken out by the owner of a sole proprietorship or partnership for his or her personal use. Owner's draw decreases the owner's capital account. Typically, a

check is written on the business account to the owner and it is deposited in the owner's personal account.

**Owner's equity:** the residual interest in the assets of a business after liabilities are deducted. It is the net worth of a business and equals the difference between assets and liabilities. Equity represents the amount belonging to the owner once all financial obligations have been met.

**Owner's salary:** the salary or wages paid to the owner, including related payroll burden.

**Pre-paid expenses:** future expenses that have been paid in advance.

**Revenue:** the total amount of money received by your company for goods sold or services provided during a certain time period. Note that all revenue is income, but not all income is revenue.

**Salvage value:** the estimated resale value of an asset at the end of its useful life.

**Seasonality:** a characteristic of a time series in which data experiences regular and predictable changes which recur every calendar year.

**Start-up costs:** costs incurred prior to the commencement of business operations.

**Target market:** the group of customers to whom you have decided to aim your products/ services and marketing efforts. Note that this is a specific demographic group (e.g. men aged 19 to 29), not a broad sweep of the population (e.g. adults aged 18 to 65).

**Terms:** the requirements accompanying financing or funding, which dictate how monies are to be spent (eligible costs) and how they are to be repaid.

**Variable cost:** a cost that fluctuates with your business volume. This includes direct labour, materials or supplies used to produce your product or deliver your service and inventory.

**WISB rate:** a percentage determining premium fees paid to the Workplace Safety & Insurance Board.

**Working capital:** the amount of a company's assets minus the amount of its liabilities. For a start-up business, working capital is money the business needs to continue operating until it is profitable.