

IDEAS

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ASK ALAN | BY ALAN FRIEDMAN

Business Plans: Part 2

In the February installment of Ask Alan, I wrote about the value of creating a business plan. Aside from having a nice, pretty document to impress your banker, suppliers, neighbors, spouse and kids, the real value of writing a business plan lies in the process of making you think about your business in a systematic way.

This act of planning helps you critique the way you conduct business; study and research important financial, operational and organizational procedures that may be lacking in your business; and express your ideas and dreams in written form. Ideas and dreams can turn into reality by achieving business goals.

In the first part of this two-part series, I focused on helping you construct the “narrative content” of a business plan. This month, I’ll guide you on preparing the “financial analysis” section of the business plan.

THE FINANCIAL SECTION

Again, a business plan is a formal written document, consisting of narrative content and financial information about your business. The narrative content is the body of



‘A well-organized spreadsheet of your company’s financial history can present a great deal of financial data over many years on a single page for easy comprehension and analysis.’

the business plan and describes pertinent operational and management aspects of your business.

The financial section is usually comprised of “projected” spreadsheets, including income statements, balance sheets and cash flow schedules, in addition to “historical” financial data about the company. Bear in mind, a solid analysis of the past must precede any serious attempt to forecast the future. A well-organized spreadsheet of your company’s financial history, including ratios and industry averages, can present a great deal of financial data over many years on a single page for easy comprehension and analysis.

FORECASTING THE FUTURE

At the very least, the financial plan should include a projected income statement (a.k.a. statement of revenues and expenses, or simply the “P&L”), a cash flow projection and a projected balance sheet. These statements are usually prepared over a 12-month period, as well as a three- to five-year period.

If you are planning a major expansion with heavy up-front costs and capital expenditures,

consider adding a “sources and uses statement” for any borrowed funds. Rather than write a 100-page narrative on how these statements work, I’d rather enlighten you under the premise that “a picture is worth a thousand words.” Check out the next page for an abbreviated version of what each of these statements looks like.

GETTING PERSONAL

Since owners will often have to draw on or offer personal assets to finance their businesses, consider including a personal financial statement on the owner or owners of your store as an exhibit in your company’s business plan.

Since owners are almost always asked to co-sign or personally guarantee any business loans, bankers and investors usually want to see what personal assets are available for collateral. It’s important to note that when you prepare a personal financial statement you should record all assets at their fair market value. This is different from your business financial statements, which record all assets at the “lower” of either cost or fair market value—which is usually cost.

Chart-Excel Version.xls [Read-Only]					
	A	B	C	D	E
1	BIG AL'S GUITAR & BAG PIPE STORE, INC.				
2	FORECASTED STATEMENT OF INCOME				
3	For the 12 Months Ending December 31, 20XX				
4					
5					
6		<u>JAN</u>	<u>FEB</u>		
7					
8	NET SALES	\$ 90,000	\$ 100,000		
9					
10	COST OF GOODS SOLD	<u>32,000</u>	<u>34,000</u>		
11	GROSS PROFIT	58,000	66,000		
12					
13	OTHER OPERATING INCOME				
14	Rental income	24,000	22,000		
15	Less: rental instrument depreciation	(17,000)	(17,000)		
16	Lesson income	20,000	20,000		
17	Less: music teacher costs	(12,000)	(12,000)		
18	Repair income	5,000	5,000		
19	Less: repair parts and wages	<u>(3,000)</u>	<u>(3,000)</u>		
20	TOTAL OPERATING PROFIT	<u>75,000</u>	<u>81,000</u>		
21					
22	OPERATING EXPENSES				
23	Salaries - officer	8,000	8,000		
24	Salaries - sales staff	15,000	15,000		
25	Salaries - administrative	6,000	6,000		
26	Payroll taxes and fringe benefits	5,500	5,500		
27	Rent and utilities	8,000	8,000		
28	Interest	5,000	5,000		
29	Advertising	4,000	7,000		
30	Office expense	3,000	3,000		
31	Insurance	2,000	2,000		
32	Store supplies	2,000	2,000		
33	Travel and trade show expense	5,000	-		
34	Professional fees	-	5,000		
35	Depreciation and amortization	4,000	4,000		
36	Miscellaneous and other	<u>5,000</u>	<u>5,000</u>		
37		<u>72,500</u>	<u>75,500</u>		
38	NET INCOME	<u>\$ 2,500</u>	<u>\$ 5,500</u>		
39					
40					
41	FORECASTED STATEMENT OF CASH FLOWS				
42					
43		<u>JAN</u>	<u>FEB</u>		
44					
45	NET INCOME	\$ 2,500	\$ 5,500		
46					
47	Plus: depreciation and amortization	4,000	4,000		
48	cost of goods sold	32,000	34,000		
49	Less: inventory paid for	(27,000)	(30,000)		
50	rental instruments purchased	-	(40,000)		
51	loan payments - principal	<u>(10,000)</u>	<u>(10,000)</u>		
52	MONTHLY SURPLUS (DEFICIT)	1,500	(36,500)		
53	BEGINNING CASH BALANCE	<u>2,000</u>	<u>3,500</u>		
54	ENDING CASH BALANCE	<u>\$ 3,500</u>	<u>\$ (33,000)</u>		
55					

Therefore, personal financial statements can report your personal assets at higher, more aggressive values than your business assets, which are reported more conservatively in your business financial statements.

OTHER INFO & EXHIBITS

Keep in mind, there's a variety of other pertinent financial information you can include in your business plan.

Some of these other supporting schedules can include a break-even analysis; a detailed list of equipment owned or needed to be purchased; a debt schedule detailing the terms of each note payable on your balance sheet; a sales schedule by department and location; business brochures; advertising materials; industry studies; maps and photos of your store location; magazine articles about your company; copies of pertinent leases and contracts; letters of support from customers; market research studies; and any other material needed to support the assumptions in your business plan.

Trust me, bankers and other credit lenders love this stuff.

Together, the narrative and financial spreadsheet sections constitute a reasonable estimate of your company's financial future. More importantly, the process of thinking through the financial plan will improve your understanding of the inner financial workings of your company. It helps you actually achieve the millions of dollars of net worth you've been telling your banker, suppliers, neighbors, spouse and kids about for the last 10 years. **MI**

Are financial questions keeping you up at night? E-mail yours to askalan@musicincmag.com.

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