

Financial Planning in Business Plans Mayo Business Plan Competition

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Overview

- Introductions
- Business Financials
- Projections
- Cash Flows
- Break-even Analysis
- Wrap-up



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Some Terminology

- Sales or Revenues: Price
- Expenses: Cost
 - Cost of goods sold
 - Operating: List some?
- Profit (Loss) = Sales - Expenses



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Income Statement Examples

Sample Company Income Statement (Service) For the Year Ended September 30, 2021

Service revenue	\$2,750	
Operating Expenses:		
Depreciation expense	100	
Wages expenses	1,200	
Supplies expenses	<u>60</u>	
Total operating expenses		<u>1,360</u>
Operating Income		1,390
Other Item:		
Interest expense	<u>40</u>	
Pretax income		<u>1,350</u>
Income tax expense	<u>405</u>	
Net income		<u>\$945</u>

Sample Company Income Statement (Product) For the Year Ended September 30, 2021

Sales revenue	\$6,875	
Cost of Good Sold	<u>(4,125)</u>	
Gross Profit		\$2,750
Operating Expenses:		
Depreciation expense	100	
Wages expenses	1,200	
Supplies expenses	<u>60</u>	
Total operating expenses		<u>1,360</u>
Operating Income		1,390
Other Item:		
Interest expense	<u>40</u>	
Pretax income		<u>1,350</u>
Income tax expense	<u>405</u>	
Net income		<u>\$945</u>



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Projections

- Revenues: Most Complex
- Assumptions about pricing
 - Who are the customers?
 - What resources to you have? Level of Productivity
 - Seasonality: Customers, suppliers, internal process
 - Sales pipeline: Assess contracts



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Important Tips



- Do your homework about your product and competitors.
- Know what makes your product different.
- Make sure your price is higher than your costs.
- Very hard to raise the price once the product is out.
- What is your 'gut' telling you about the price?
- Know that someone will always complain about the price.



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Project Expenses

- **Variable vs. Fixed costs**
 - Variable: per unit is the same, total increases with volume
 - Fixed: stays the same regardless of volume
- **Time and materials pricing**
 - Labor and Materials with a markup percentage
- **Cost of Goods Sold is mostly Variable costs**
- **Operating Expenses are mostly fixed**
- **Margins**
 - Gross Margin % = $(\text{Sales} - \text{Cost of Goods Sold}) / \text{Sales}$
 - Profit Margin % = $\text{Profit} / \text{Sales}$



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Breakeven Analysis

Example

	Unit	Total
Units sold	100	
Price per unit	\$100	
Cost per Unit-Variable	\$20	
Fixed costs	\$10,000	
Revenues	\$100	10,000
Variable Costs	<u>\$20</u>	<u>2,000</u>
Contribution Margin	\$80	8,000
Fixed Costs		<u>\$10,000</u>
Profit		(2,000)

Breakeven Formulas

- Breakeven Unit Volume

$$\text{Units} = \frac{\text{Fixed Costs}}{\text{Contribution Margin per Unit}}$$

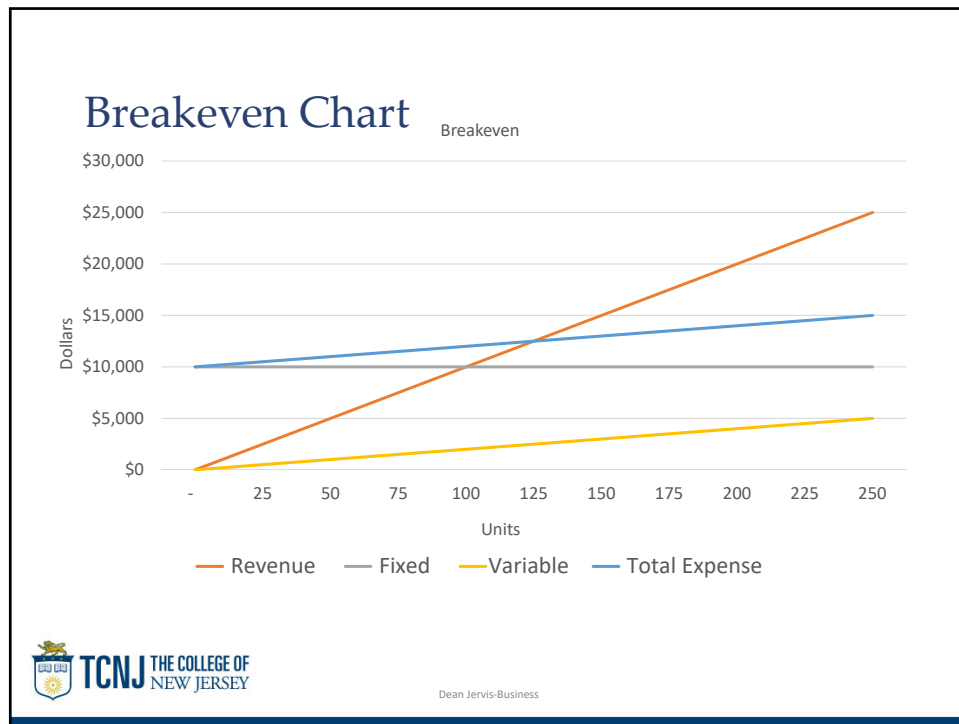
$$(\$10,000 / \$80) = 125 \text{ units}$$
- Breakeven Vol. with Profits

$$\text{Units} = \frac{\text{Fixed Costs} + \text{Desired Profit}}{\text{Contribution Margin per Unit}}$$

$$(\$10,000 + \$50,000) / \$80 = 750 \text{ units}$$



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Cash Flow Analysis: Monthly

• Steps

1. Start with Beginning Cash Balance
2. Enter in all Cash Inflows for the Month
3. Total Cash Inflows
4. Enter in all Cash Outflows for the Month
5. Enter other Cash Out Flows
6. Total items 4 and 5
7. Ending Cash Balance = Available Cash Less Outflows
8. Ending Cash Balance is carried to Top of Next Month

Some Terminology

- **Assets: Resources the company owns**
 - Cash
 - Accounts receivable (billings to customers who did not pay yet)
 - Inventory
 - Building
 - Equipment
- **Liabilities: Debts the company owes**
 - Accounts payable
 - Notes payable
- **Equity: Residual amount (Assets-Liabilities)**
 - Owners' investment: capital or stock
 - Retained earnings: Total of ALL PROFIT (Income) from start of business
- **Accounting Equation: Assets = Liabilities + Equity**



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Balance Sheet Example

Sample Company
Balance Sheet
September 30, 2021

Assets		Liabilities and Stockholders' Equity	
Current Assets:		Current Liabilities:	
Cash	\$ 1,550	Accounts payable	\$60
Accounts receivable	770	Interest payable	80
Supplies	40	Wages payable	100
Total current assets	2,360	Income taxes payable	405
		Utilities payable	250
		Total Current Liabilities	895
Equipment	12,000	Long-term Notes Payable	8,000
Less: Accumulated depreciation	(1,300)		
	10,700	Owners' Equity:	
		Owners' capital	2,900
		Retained earnings	1,265
		Total equity	4,165
Total assets	\$13,060	Total liabilities and owners' equity	\$13,060



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Wrap-Up

- Summary
 - Financials
 - Service/Product pricing
 - Projections
 - Breakeven
- Questions? Comments?

thank you!



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