



— Business Plan Financial Data —

This handout contains the financial projections of all information needed elsewhere in your business plan. You must include the company's historical financial performance (if an existing business) and your projections of the company's future performance. This gives the reader an idea of where the company has been and where it is heading.

All potential lenders or investors will require financial information on your business. As a minimum requirement for start-up operations, expansion, and acquisitions, you will likely have to provide the following information:

For a new business:

- provide at least a one- to three-year financial projection including balance sheet, income statement, and cash flow (monthly for the first year, can be quarterly after the first year)
- identify assumptions used to develop financial forecast
- For an existing business:
 - provide three years of historical financial statements
 - if possible, provide interim financial statements for the current year-to-date, and a projection to year-end
 - provide a one- to three-year financial projection including balance sheet, income statement and cash flow
 - identify assumptions used to develop financial forecast

Completing the Cash Flow Statement

A cash flow projection is an estimate of when you expect cash to flow into the business and when you expect cash to flow out of the business. A cash flow projection is usually prepared on a per month basis and for three years into the future. It assists you in determining how much actual flow you will need to finance the activities during the month. As well, it demonstrates to lenders that you have the ability to repay your loan every month.

The cash flow statement is one of the most important tools that the small business owner can use to help analyze how the business is doing. By comparing the projections with your actual results, you can look for the answers to potential problems, or growth opportunities, such as:

I projected \$3000 in sales in February, but I only sold \$1000. What factors contributed to this? What do I need to do to ensure that March sales are closer to my projections? Do I need to revise my projection sheet? Will I have enough cash to cover expenses?

-or-

I spent \$250 on marketing and advertising in April. How effective was my campaign? Did it bring in the customers that I thought it would? Should I be advertising more or less? Do I need to find a new venue to promote my product?

Preparing the Statement

Cash Receipts:

The first item on the statement that you must complete is the cash that you have invested in the business, and then the cash that you have received from loans. This is cash only, not the assets in the business that you already own, like furniture or equipment.

The estimate of sales is the next portion of the statement to complete. To do this, you should consider the most likely scenario for your business. Do not make the error of estimating the best case scenario to make your statement look good. Be realistic.

If you have previous sales, this will give you some indication of what your projections will be like, particularly if sales have been cyclical. Decide on what your credit policy will be. If you are only dealing with cash, then all sales will be entered in the *Cash Sales* row. However, if some customers use credit, for example, 30 days, then the credit sales that you made January will not be entered as receipts in January, but will be entered as *Collection of Accounts Receivable* in February.

Cash Disbursements:

The cash disbursements portion of the statement include all of the things that you have spent cash on during the month. Remember that this statement shows the actual cash flowing into and out of the business. Therefore, if you pay for insurance in semi-annual installments, in January and July, the amount that you pay should be entered in those two months.

The AWE proforma includes a number of disbursements, and you should tailor it specifically to your business. Make sure that you include all sources of income for the business, and all expenses.

Now, add all of the cash receipts for the month, and enter the sum as *Total Cash received (A)*. Then, add up all of the cash disbursements and enter the sum as *Total Cash paid out (B)*. If you are just starting up, your first month's opening cash balance will usually be zero (your investment has already been taken into account in '*cash invested by owner & others*'). If you are already operating, include your cash balance per your records. The closing cash balance will be the result of the total cash in minus total cash out plus the opening balance. If this amount is negative, it will mean that you do not have enough cash to cover your expenses this month. The closing cash balance for the current month is the opening cash balance for the following month.

Making it easier on your lender!!

One of the things to keep in mind when completing all of these statements is that you know your business very well – your lender doesn't! You cannot expect the lender to be an expert in your industry, lenders deal with many differing industries every day. Therefore, try and make it as easy as possible for your statements to be read and understood.

By explaining some of your expenses in the form of notes at the bottom of the financial sheet, the lender will not have to flip through your business plan to find out why you have something listed under *Other Cash Receipts*, or what you have estimated your loan payment at. To see an example of this, take a look at the Cash Flow Exercise attached.

Completing the Income Statement

The income statement presents the actual revenue and expenditures over a *period of time* for your business. Its purpose is to show the net profit or loss of the company. Other names for this statement are a profit and loss statement, an operating statement or an income and expenses statement.

The sales during a period are entered on the statement. This includes both sales paid in cash and those on account. If you are selling a product, as opposed to a service, there is a row for Cost of Goods Sold. This is the cost to you of the product. For example, you manufacture cloth book bags, and the cost of actually making them (fabric, zippers) is \$5. If you sold 100 bags over the period, you would include \$500 as the Cost of Goods Sold.

When the Cost of Goods Sold is subtracted from the Sales, the figure left is called the *Gross Margin*. This is the amount that you have left to pay for everything else like heat, rent, advertising, etc. Knowing your Gross Margin is important because it allows you to compare your business with others in the industry. Your lender will look closely at it, to determine if it is realistic.

Operating Expenses – Your operating expenses will probably look very similar to the cash disbursements portion of the Cash Flow Statement. The AWE proforma income statement has many expenses listed, and you should tailor it to your business. One thing to note is that you only put in the part of your loan that is interest, not principal.

Depreciation – All assets fall into a category under the rules of Revenue Canada, for the purposes of depreciation. This is because a table depreciates at a different rate than a vehicle. If the asset of your business falls into the 20% category and its value is \$5000, it means that you can depreciate \$500 in the first year (Revenue Canada only allows you to depreciate half of the percentage rate in the first year!). The asset would then be valued at \$4500, and depreciate the second year by \$900. At the start of the third year it would be worth \$3600, and would depreciate during that year by \$720. Note that on the Income Statement, you show depreciation that actually occurred in the period, but on the balance sheet, you show the depreciation that has accumulated over time.

Operating Profit – When all of your expenses are added together, this sum is subtracted from the Gross Margin to give your operating profit. This figure tells you basically what the business earned during the year.

From your operating profit, you should subtract the amount that you will have to pay for income tax for this period. For example:

You estimate you will sell _____ number of products or services, at a dollar value of \$ _____ for a total of \$ _____ monthly sales.

You estimate the cost of goods sold to be \$ _____, so your sales, less the cost of the goods sold (inventory freight, shipping, labour, etc.) leaves you a gross profit margin of \$ _____.

Take into consideration, if there will be any cycles or seasonal differences in your sales and estimate your costs and expenses accordingly.

Make sure you explain your *assumptions* that you use in preparing each year's financial projections.

Things to consider:

In preparing the income statement, considers all the factors likely to affect revenues and expenses during the planning period, including the following:

- What is your projected sales growth? Consider seasonal trends.
- Are there any additional expenses, overheads and production costs associated with a projected increase in sales (for example, a higher sales commission, rent for storage space to handle increased inventory)?
- Have you considered other costs associated with the purchase of new equipment in addition to the purchase price (delivery, installation, financing)?
- Your lender will look at your Gross Margin, Operating Profit, and Net Income, in order to compare them with what is average for the industry.

The Break-Even Point

Have you determined your break-even point? This is often glossed over; however it makes sense for every business to able to identify its break-even point. The break-even point is the amount of sales you have to make in order to break-even (not lose money!). It is calculated by breaking down your fixed and variable costs. **Fixed costs** are those costs that you must pay whether you sell 1 item, or 10,000 items. They include: rent, loans, insurance and often wages. **Variable costs** are the costs that increase or decrease in direct proportion to the amount of your sales. For example, your costs of goods sold will increase if you sell more, as will any additional staff you hire, etc.

Break even point is:

$$\frac{\text{fixed costs}}{\text{unit selling price (minus) unit variable costs}}$$

This figure is the number of items that you have to sell in order to break even. If you are selling more than this then you should be making a profit, and if you sell less than this, you will not even be covering your fixed expenses.

Completing the Balance Sheet

The balance sheet is a tool that provides you with a record, at a specific point in time, of everything you own (assets), everything you owe to other people (liabilities), and all of the equity you have put into the business. It differs from an income statement in that the income statement tells you your profit over a period of time. The balance sheet acts more like a snapshot of your business on a certain day.

The balance sheet gets its name from the fact that it 'balances' the asset side with the liability and owner's equity side.

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

Logically this makes sense – all of the things the business owns has to be paid for either by some form of financing (i.e. a loan), or by you, the owner.

Assets

Assets are generally broken down into two categories: current, and fixed.

Current assets are those items that you expect to be turned into cash within the coming year. They include:

- cash, or short term investments that the business has made
- inventory (this is calculated at the lower of what it cost you to purchase it, and the value you could sell it for on the market)
- accounts receivable

- prepaid expense (for example, if, in January, you paid for insurance for the entire year and did a balance sheet at the end of June, half of the amount would be listed as a prepaid expense, because it is paid in advance and you could recover the money if you canceled the policy)

Fixed assets are things that have a lifetime longer than a year. They include

- equipment
- furniture
- land
- vehicles

If your business has invested in something like some bonds, you would include it here as a long-term investment. Equipment includes all of those items that the business owns that are generally not expendable, like furniture, machinery, tools or computers. If you are setting up the business in your home, and you already own office furniture, you list the value of it at 'fair market value.' This is the value you would have to pay for it if you bought it 'as is,' not the value of replacement furniture.

If your business owns vehicles, or buildings, the fair market value is also entered as a fixed asset.

Another category under fixed assets is Leasehold Improvements. For example, if you are leasing a building to operate your business and have made a number of improvements to it, like shelving and counter space, this amount should be indicated.

Accumulated depreciation is the amount of depreciation that has accumulated over time. For example, you purchased a new computer at start-up that cost \$3000. This is a fixed asset and can be depreciated at a rate of 15% (or \$450) the first year, and 30% every subsequent year, (\$765, \$536, \$375, etc.). This depreciation means that the computer isn't worth as much after one year as it was in the first year, so the depreciation is subtracted from the total amount of the assets and added to the expenses for the year. All assets fall into a depreciation category from Revenue Canada, except for land. Land is not depreciated.

Liabilities

Liabilities are generally broken down into two categories: current, and long-term.

Current liabilities are those debts that the business owes that will be paid within the coming year. This would include things like accounts payable (people you owe money to for things like inventory), and the portion of long term debt that will be paid in the coming year (such as this year's payments on your 5 year bank loan). If you owe your employee's their salaries or you haven't paid your income tax yet, then these items would be included as well.

Long -term liabilities include things like loans, or mortgages.

Owner's Equity

Owner's equity consists of the value of the money or things that you put into the company. If your business has sold shares to raise money, then this amount would be included as Share Capital. If you put money or equipment into the business to get it started, then this is included as a loan/contribution from the owner. For example, if you are using that old office furniture then the amount that it is worth should be included in this category.

There is another section in the equity section called Retained Earnings. This is income that is made, and is kept in the business. If after your second year in business, the business made \$10,000 after paying out salaries, taxes, operating expenses, etc., it could be kept in the company and called 'Retained Earnings.'

The final portion of the equity section indicates how much the owner has taken out of the business. It is called Owner's Drawings and is subtracted from the equity, since it is no longer a part of the business. It may be easier to think of this as the owner's salary.

Analyzing the Balance Sheet

The Balance Sheet is more than a system to keep your accountant happy, it is an actual tool to be used by the small business owner to reflect on how their business has been performing. Some of the information you should be looking at when you prepare your balance sheet is:

- Are customers paying you on time, or is your accounts receivable growing abnormally large? If you expect them to pay within 15 days, are they doing so, or are they paying on average at 45 days. This may mean that you want to reexamine your credit policy. If this is a large portion of your assets, remember that you are, essentially loaning your customer's money for 45 days (and probably aren't even getting any interest!).
- Do you have enough or too much inventory on hand? If either is the case, you will want to look closely at your ordering policies and see if your inventory is out of date.
- Are your Accounts Payable being paid on time, and in accordance with agreements from your suppliers?
- Are you financing your business by going heavily into debt? One ratio that your lender will look at is the 'Debt (liabilities) to Equity' ratio. What a lender is looking for will depend on the risk of the business, and the industry. It is understood that at start-up you will probably have a much higher ratio than an established business; however, you should try to determine what the industry average is for this amount, in order to compare your business (debt to equity ratio is expressed as follows: if you owe 20,000 and your equity is 10,000, then ratio is 2:1).
- An additional ratio that is examined by lenders is the 'Current Ratio'. This is measured by dividing current assets by current liabilities. This shows the ability of the business to meet the financial obligations it has in the coming year, with the assets that are liquid in nature (easily turned into cash). Ideally, a business that is up and running will have a current ratio of 2:1, but at start-up it will most likely be lower. Most lenders will probably compare your ratio with what is typical for that industry.

Cash Flow Exercise – Monica's House of Beauty

The purpose of this exercise is to have you work through a cash flow statement for a service business; this particular business is a hairdressing shop. The owner, Monica, is a sole proprietor, and is the only employee in the shop. She has been in the hair styling business for a number of years and would like to open her own shop. She expects to be able to take some of her clients with her when she leaves.

As you go through the available information, enter the data into the cash flow proforma statement. Remember that you put the figures in when the cash will **actually** flows into and out of the business.

Available information:

(for the purposes of the exercise, assume that there are 4 weeks per month and when calculating figures, round off to the nearest dollar)

1. Monica has already saved \$4000 toward her new business.
2. Monica can service on average 2 clients per hour and generally charges \$20 per client. The first month she expects to be working at 50% capacity and grow by about 10% per month until she is at full capacity.
3. The shop hours are:

Tuesday and Wednesday	10:00 a.m. - 5:30 p.m.
Thursday and Friday	11:00 a.m. – 7:00 p.m.
Saturday	9:00 a.m. – 5:00 p.m.
Sunday and Monday	closed

She plans to take a 30 minute lunch break everyday, but will vary it depending on when she has clients.

Calculate the estimated sales for the next 12 months. Don't enter it in the statement yet, because some of these sales will be on credit.

4. Monica has read up on an industry profile that 40% of her customers will pay in cash, and approximately 60% will pay by VISA. She has contacted VISA and has determined that it will cost approximately 4% of (VISA) sales to operate this type of account. She estimates that the VISA receipts will take approximately 30 days to be paid, so she will receive the cash from any VISA sales made in January, in February. (VISA is actually faster at paying the owner, this was done for the exercise purposes.)

Calculate the cash sales (40%) portion now, and the collection of accounts receivable (60%). The VISA expense will be entered under disbursements (4%).

5. Monica will have to purchase \$10,000 worth of equipment to start up the business. She would like to finance this and has talked to her lender that may give her a loan at 9%, over 3 years, this works out to a payment of \$318. The lender wants to see her completed cash flow projections first.

The loan proceeds will be \$10,000 from the lender, this is entered in the Cash In portion.

Insert figures for purchase of equipment, and loan payments in the disbursement portion of the form.

6. When she is up and running at full capacity, she expects to purchase \$250 per month in salon incidentals like hair spray, brushes, etc. This cost will depend on the number of customers she has, so in January it will be at 50%, and increase at a rate of 10% per month until it reaches \$250.

Insert figures for purchase of inventory/supplies.

7. Her rent is \$800 per month. The landlord has asked her to pay a \$800 security deposit prior to moving in.
8. She pays her insurance in two installments; \$1000 in January and \$1000 in July. (She probably could have paid her insurance on monthly installments, but for exercise purposes, she is paying semi-annually.)
9. Monica will spend approximately \$400 on advertising and marketing in the first month and reduce it to \$250 from then on.
10. She has calculated the office expenses to be approximately \$200 per month. This breaks down to \$120 for telephone and utilities, and \$80 for office supplies.
11. In a discussion with her accountant, Monica has determined that she will have to pay approximately \$6,500 in taxes next December. This number is dependent on sales being what she approximated them at. (The tax is actually due in April, but to illustrate the effect on cash flow, hers are due in December.) Her accountant's fee is \$200.
12. She has decided to draw \$1000 out of the business every month to pay for her personal expenses. She also knows that as the owner, any profits that she makes above this amount will be hers, but she will leave the profits in the business for the first two years.

Calculate the total cash received and the total cash paid out now.

13. Monica does not have an opening cash balance since her business is brand new. She can calculate the closing cash balance, based on the total cash received and the total cash paid out. **Note:** The closing balance from January, is the opening balance for February, etc.

Calculate the Opening and Closing cash balances.

Note: Monica is aware that she can depreciate her equipment since it will wear out over time. However, this is a *cash flow* statement: it measures the cash that flows into and out of business. When you depreciate equipment it affects the value of your assets – but there is no new cash coming into the business, and therefore it is not on the statement.

Cash Flow Assumptions for Monica's House of Beauty:

Revenue

General Assumptions

- 40% of sales will be cash
- 60% of sales will be Visa, (immediate credit received), however, any disputed amounts can be charged back to Monica's Visa merchant account after a period of 12 months
- cost of Visa is 4% of Visa sales
- for any month that Monica projects a cash shortfall, she will use her overdraft limit at the bank to cover

Year 1

- Since Monica is working alone, based on her past years of experience she knows that the maximum number of clients she could service would be 2 clients per hour. It would be physically impossible for her to service any more than that number of clients per hour.
- Based on her past experience, she also knows that the average client spends \$20 per visit.
- She will be open 6 days a week, Monday through Saturday from 10 am to 4 pm, for a total of 6 hours per day or: 6 days per week x 6 hours per day = a maximum of 36 hours per week.

Based on her past experience in various other shops, and based on the traffic count that she completed, she does not expect to have the maximum number of clients until she has established a reputation for consistent quality of service. She also received a monthly traffic count from the landlord in order to determine historically slow periods. There is a hair salon at the opposite end of the mall. However, Monica feels she has a competitive advantage because she is near the Eaton's store, which draws the largest proportion of clients to the mall. Therefore, she has calculated the following projections:

MONTH 1: January 1998

She expects to serve only one client each morning and afternoon, Monday through Friday.

She expects to serve 2 clients on Saturday morning and afternoon.

She expects to serve one client at noon, Monday through Friday.

She expects to serve two clients on Saturday at noon.

Based on these expectations, she plans to generate the following amount of revenue:

1 client per morning x 22 days (number of days – Monday through Friday in January) x \$20 per client = \$440

1 client per noon hour x 22 days (number of days – Monday through Friday in January) x \$20 per client = \$440

1 client per afternoon x 22 days x \$20 per client = \$440

2 clients per Saturday morning x 5 days (number of Saturdays in Jan. 1998) x \$20 per client = \$200

2 clients per Saturday morning x 5 days x \$20 per client = \$200

2 clients per Saturday morning x 5 days x \$20 per client = \$200

TOTAL REVENUE GENERATED FOR JANUARY: \$1,920

MONTH 2: February 1998

She believes that the mornings will remain slow because the traffic flow in the mall during January and February is lower than the rest of the year due to the cold weather.

She does expect her business to increase Tuesday afternoons because seniors get a discount at Eatons's in the mall and so there are more seniors shopping on that day and she knows from past experience that when there is an increase in traffic flow, her sales will increase.

She also expects her business will increase on Friday afternoons as word of mouth and store front signage bring more people to the store for haircuts in preparation for their weekend.

ased on this information, she projects the following revenue to be generated:

1 client per morning, Monday through Friday x 20 days (number of days – Monday through Friday in Feb.) x \$20 per client = \$400

1 client per afternoon Monday, Wednesday, Thursday x 12 days (number of days – Monday, Wednesday, Thursday in Feb.) x \$20 per client = \$240

1 client per noon, Monday through Friday x 20 days x \$20 per client = \$400

2 clients per afternoon Tuesday and Friday x 8 days (number of days, Tuesdays and Fridays in Feb.) x \$20 per client = \$ 320

2 clients per morning Saturday x 4 days (number of Sat. in Feb.) x \$20 per client = \$160

2 clients per noon Saturday x 4 days x \$20 per client = \$160

2 clients per afternoon Saturday x 4 days x \$20 per client = \$160

Total revenue for Feb/98 = \$1840

MONTH 3: March 1998

Monica anticipates her sales will start to grow as the weather warms slightly and traffic flow to the mall increases.

Mornings remain slow. However, she anticipates serving more people in the afternoons as she has finally had her name added to the mall directories. She has yet to be able to have her business included in the mall brochures and map because the mall only prints them twice a year. The next printing is not until September.

By simply having her business name on the mall directory, she expects to be able to increase her sales because more people will know there is another salon in the mall. This will be helpful if the people go to the competition and they aren't able to serve them at that exact time. The person would then come to her shop. Therefore, she expects to generate the following revenue:

1 Client per morning x 22 days (number of Mondays through Fridays in March) x \$20 per client = \$440

2 clients per noon x 22 days x \$20 per client = \$880

3 clients per afternoon Mon. Wed. Thurs. x 13 days (number of Mon, Wed., Thurs. in March) x \$20 per client = \$780

4 clients per afternoon Tues. and Fri x 9 days (number of Tues. and Fridays in March) x \$20 per client = \$720

2 clients per Saturday morning x 4 days (number of Sat. in March) x \$20 per client = \$ 160

2 clients per noon Saturday x 4 days x \$20 per client = \$160.

5 clients per afternoon Saturday x 4 days \$20 per client = \$400

Total revenue generated for March 1998 = \$3,540

MONTH 4: April 1998

Monica expects her morning sales to now increase as Easter is during this month and she expects to generate additional business as traffic flows increase in the mall during the Easter break. As such, she plans to generate the following revenue:

2 clients per morning Mon thru Fri. x 22 days (number of Mon thru Fridays in April) x \$20 per client = \$880

2 clients per noon Mon thru Fri x 22 days x \$20 per client = \$880

5 clients per afternoon Mon. Wed.Thurs x 14 days (number of Mon. Wed. & Thurs in April) x \$20 per client = \$1400

6 clients per afternoon Tues. Fri & Sat x 12 days (number of Tues. Fri & Sat in April) x \$20 per client = \$1440

4 clients Saturday morning x 4 days (number of Sat . in April) x \$20 per client = \$320

2 clients Saturday noon x 4 days x \$20 per client = \$ 160

Total revenue generated in April 1998 = \$5080

MONTH 5: May 1998

Monica expects to maintain the same sales in May as in April because historical traffic counts as supplied by the mall landlord indicates no significant changes in the traffic count for May compared to April.

Total Revenue for May: \$5080

MONTH 6: June 1998

Monica expects to operate near capacity this month as business increases with graduations happening this month, particularly in the last two weeks of June.

Therefore, she plans to generate the following sales:

3 clients per morning Mon thru Fri. x 22 days (number of Mon thru Fridays in June) x \$20 per client = \$1320

2 clients per noon Mon thru Fri x 22 days x \$20 per client = \$880

5 clients per afternoon Mon. Wed.Thurs x 6 days (number of Mon. Wed. & Thurs in first 2 weeks of June) x \$20 per client = \$600

6 clients per afternoon .Mon. Wed. Thurs. x 7 days (number of Mon. Wed. & Thurs. in last 2 weeks of June) x \$20 per client = \$840

6 clients per afternoon Tues. Fri & Sat x 13 days (number of Tues. Fri & Sat in June) x \$20 per client = \$1560

4 clients Saturday morning x 4 days (number of Sat. in June) x \$20 per client = \$320

2 clients Saturday noon x 4 days x \$20 per client = \$ 160

Total revenue generated in June 1998 = \$5680

MONTH 7: July 1998

Monica expects that sales will decrease this month as summer holidays start and people will be going on holidays and mall traffic has historically decreased during this month. Therefore, she expects revenue as follows:

2 clients per morning Mon thru Fri. x 23 days (number of Mon thru Fridays in July) x \$20 per client = \$920

2 clients per noon Mon thru Fri x 23 days x \$20 per client = \$920

4 clients per afternoon Mon. Wed.Thurs x14 days (number of Mon. Wed. & Thurs in July) x \$20 per client = \$1120

4 clients per afternoon Tues. Fri & Sat x 13 days (number of Tues. Fri & Sat in July) x \$20 per client = \$1040

2 clients Saturday morning x 4 days (number of Sat. in July) x \$20 per client = \$160

2 clients Saturday noon x 4 days x \$20 per client = \$ 160

Total revenue generated in July 1998 = \$4320

MONTH 8: August 1998

Monica expects sales to remain slack until the last week in August when she expects a substantial increase as people are getting ready to go back to school. Traffic has historically increased in the mall during this time period as well. Therefore, she expects to earn the following revenue:

2 clients per morning Mon thru Fri. x 15 days (number of Mon thru Fridays in first 3 weeks in August) x \$20 per client = \$600

4 clients per morning Mon thru Fri x 6 days (number of Mon. thru Fridays in last week of August) x \$20 per client = \$480

2 clients per noon Mon thru Fri x 21 days x \$20 per client = \$920

4 clients per afternoon Mon. Wed. Thurs x 9 days (number of Mon. Wed. & Thurs in first 3 weeks of August) x \$20 per client = \$720

6 clients per afternoon Mon. Wed. Thurs. x 4 days (number of Mon. Wed. & Thurs. in last week of August) x \$20 per client = \$480

4 clients per afternoon Tues. Fri & Sat x 10 days (number of Tues. Fri & Sat in first 3 weeks of August) x \$20 per client = \$800

6 clients per afternoon Tues. Fri. & Sat x 3 days (number of Tues. Fri. & Sat in last week of August) x \$20 per client = \$360

2 clients Saturday morning x 4 days (number of Sat. in first 3 weeks of August) x \$20 per client = \$160

4 clients Saturday morning x 1 day (number of Sat. in last week of August) x \$20 per client = \$80

2 clients Saturday noon x 4 days x \$20 per client = \$160

Total revenue for August 1998: \$4760

MONTH 9: September 1998

Monica expects traffic to increase during this month based on historical traffic counts for the mall. Therefore, she expects sales to be approximately the same as June's figures.

3 clients per morning Mon thru Fri. x 22 days (number of Mon thru Fridays in Sept.) x \$20 per client = \$1320

2 clients per noon Mon thru Fri x 22 days x \$20 per client = \$880

5 clients per afternoon Mon. Wed. Thurs x 13 days (number of Mon. Wed. & Thurs in Sept) x \$20 per client = \$1300

6 clients per afternoon Tues. Fri & Sat x 13 days (number of Tues. Fri & Sat in Sept) x \$20 per client = \$1560

4 clients Saturday morning x 4 days (number of Sat. in Sept) x \$20 per client = \$320

2 clients Saturday noon x 4 days x \$20 per client = \$160

Total revenue generated in June 1998 = \$5540

MONTH 10: October 1998

Traffic has historically decreased for this month according to the mall landlord. Monica therefore expects sales to decrease to July or August levels, as projected below:

2 clients per morning Mon thru Fri. x 22 days (number of Mon thru Fridays in Oct) x \$20 per client = \$880

2 clients per noon Mon thru Fri x 22 days x \$20 per client = \$880

4 clients per afternoon Mon. Wed. Thurs x 13 days (number of Mon. Wed. & Thurs in Oct) x \$20 per client = \$1040

4 clients per afternoon Tues. Fri & Sat x 14 days (number of Tues. Fri & Sat in Oct) x \$20 per client = \$1120

2 clients Saturday morning x 5 days (number of Sat. in Oct) x \$20 per client = \$200

2 clients Saturday noon x 5 days x \$20 per client = \$ 200

Total revenue generated in Oct. 1998 = \$4320

MONTH 11: November 1998

Monica expects sales to continue to decline for this month as historical traffic counts show a decline in traffic for the mall. Therefore, she projected the following revenue:

2 clients per morning Mon thru Fri. x 21 days (number of Mon thru Fridays in Nov) x \$20 per client = \$840

2 clients per noon Mon thru Fri x 20 days x \$20 per client = \$800

3 clients per afternoon Mon. Wed. Thurs x13 days (number of Mon. Wed. & Thurs in Nov.) x \$20 per client = \$780

4 clients per afternoon Tues. Fri & Sat x 12 days (number of Tues. Fri & Sat in Nov) x \$20 per client = \$960

2 clients Saturday morning x 4 days (number of Sat. in Nov) x \$20 per client = \$160

2 clients Saturday noon x 4 days x \$20 per client = \$ 160

Total revenue generated in Nov 1998 = \$3700

MONTH 12: December 1998

Monica expects to be at capacity this month as people will be Christmas shopping and traffic traditionally increases for that reason. People will also be attending Christmas parties so will want their hair done for that purpose.

4 people per morning Mon. thru Sat. x 27 days x \$20 per client = \$2160

2 people per noon x 27 days x \$20 per client = \$1080

6 people per afternoon x 27 days x \$20 per client = \$3240

Total revenue for Dec. 1998: \$6480.

TOTAL REVENUE FOR 1998: \$52,260

Expenses

Purchase of Equipment

Owner purchases equipment with loan proceeds before opening

Cost of Goods Sold / Purchase of Inventory

The salon incidentals she uses in her business such as hair spray, shampoo, brushes, scissors etc. are directly related to the sales that she generates

Cost of Goods sold are 25% of sales. She knows who the suppliers are because she has been in the business for some time. The suppliers require cash on delivery. They do not extend credit.

Accounting and legal fees

Accounting fees are \$200 paid at the beginning of the year-accountant helped set up her books etc. and \$1000 for notice to reader statements prepared by the accountant

Advertising and Marketing

Advertising the first month will include business cards, and some flyer drops. A budget of \$250 per month will cover some advertising in community papers and other general awareness advertising

Bank Charges (Visa)

The service charge for Visa use is 4 % of sales paid the same month as the sales

Her monthly service charges on her account at \$100.

Income tax payments**Insurance coverage**

Owner pays insurance in two payments.

Loan Interest

Calculated at 9% over a three year period. See the amortization schedule attached in appendix # ____

Loan Principal

The total loan payment per month is \$318 including interest and principal

Office Supplies/Postage/Copying

Includes all the sundry items in running the business such as couriers, donations, paper, postage etc.

Owner Draws/Salary

Owner will draw \$1000 per month

Owner will only increase her salary as the business cash flow will allow. The owner is willing to leave all profits in the business if necessary to support loan and other cash flow for business

Rent

Rent is \$800 per month

Deposit of \$800 required by landlord before possession

Assume 5 year lease with no increases during the first 5 years

Telephone & Utilities

Assumed to be \$400 per month based on discussion with landlord and telephone company, given the amount of water used, electricity for hair dryers etc. Deposit of \$400 is required.