FINANCIAL PLANNING

**Why is having a financial plan important?**

A financial plan is an important management tool that supports and directs the actions of the business. It outlines what your business can afford, how it can afford to do it and what the expected profits will be. A clear financial plan can be the difference between you carrying the business or the business carrying you because it:

* Signals changes that may need to be made in the best interest of the business’s staying financially viable (e.g. Reducing expenses, reassigning assets)
* Provides feedback on whether business goals and objectives are being met from a financial perspective
* Enables realistically achievable financial targets to be set for future operations.

**1. ESTABLISH SET-UP COSTS**

Investigate and list all the items you need to start your business in order to get a good idea of upfront costs and whether you’ll need extra funds to fund your business. Common examples of establishment costs include:

* Registrations and licenses
* Your salary
* Supplies
* Telephone
* Rent and utilities
* Equipment and furniture
* Starting working capital – money needed for day-to-day operations

**2. FORECAST PROFIT AND LOSS**

Estimate your sales and expenses on a monthly, quarterly or yearly basis to estimate whether you can expect to make a profit or loss for each of these periods. This will assist you develop sales targets, pricing and likely profit margins.

**3. ESTABLISH YOUR CASH FLOW PROJECTIONS**

You might still run out of cash even though you are making a profit! For example, you might receive payment for sales later than expected, which is why completing cash flow projections can help you estimate whether you’ll have enough cash to run your business or if you’ll need additional funds.

Some helpful 101 tips for cashflow management include:

* Project your cash flow at least 12 months ahead to capture any seasonality
* Be realistic – some customers may be slower to pay
* Take actions to manage your cashflow if you find a cash shortfall

**4. FORECAST BALANCE SHEET**

List all your expected assets and liabilities after your first 12 months to create a financial overview of your business. This help you to evaluate the financial health of your business idea. In fact, you can use your balance sheet numbers to work out if you’ll have enough resources after a year to run your day-to-day operations.

Your balance sheet should include these three sections:

**Assets:** This is what your business owns – examples include cash, inventory and buildings

**Liabilities:** What your business owes – examples include accounts payable and loans

**Owner’s equity:** This is the portion of the assets that belongs to the business owner. To calculate this, total all your assets and then subtract your total liabilities.

**5. FIND YOUR BREAK-EVEN POINT**

A break-even analysis will show you the number of sales needed to cover costs – anything above this number can be counted as a profit. The break-even point is useful for analysing the sales, costs and pricing numbers used in your earlier forecasts and judging whether your business idea is feasible.