RUAHA CATHOLIC UNIVERSITY
RMS 222
BUSINESSES & ENTREPRENEURSHIP

Financial Plan

A: TOPIC INTRODUCTION

In general usage, a financial plan is a series of steps or goals used by an individual or business, the progressive and cumulative attainment of which are designed to accomplish a financial goal or set of circumstances, e.g. elimination of debt, retirement preparedness, etc.

A financial plan often includes a budget which organizes an individual's finances and sometimes includes a series of steps or specific goals for spending and saving future income. This plan allocates future income to various types of expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan is sometimes referred to as an investment plan, but in personal finance a financial plan can focus on other specific areas such as risk management, estates, college, or retirement.

In business, a financial plan can refer to the three primary financial statements (balance sheet, income statement, and cash flow statement) created within a business plan. Financial forecast or financial plan can also refer to an annual projection of income and expenses for a company, division or department. A financial plan can also be an estimation of cash needs and a decision on how to raise the cash, such as through borrowing or issuing additional shares in a company.

Financial Statements

A financial statement (or financial report) is a formal record of the financial activities of a business, person, or other entity.

For a business enterprise, all the relevant financial information, presented in a structured manner and in a form easy to understand, are called the financial statements.

A complete set of financial statements includes:

1. **Statement of financial position (aka balance sheet):** shows at a specific date the financial position of the company, by indicating the resources that it owns, the debts that it owes, and the amount of the owner's equity (investment) in the business.
2. **Statement of comprehensive income aka Income Statement aka Profit and Loss Account:** indicates the profitability of the business over the preceding accounting period.
3. **A statement of owner's equity**, explaining certain changes in the amount of owner's equity in the business. (called a statement of retained earnings in corporations)
4. **A statement of cash flows**, summarising the cash receipts and cash payments of the business over the same period covered by the income statement.

The basic purpose of financial statements is to assist users in evaluating the *financial position, profitability and future prospects* of a business.

B: DISCUSSION QUESTIONS

1. Financial statements of a firm may be useful to persons outside a business organization (external users) as well as those within the organization (internal users). Mention at least five external users and two internal users of financial statements, and explain how they would use them.
2. Assume you have just formed a partnership with some of your friends. Your business will be dealing with environmental health issues. List the types of financial statements you will need in your business, stating why and when you are going to need to prepare each statement.