❖ Financial Plan:-

A financial plan is also called capital plan.

It provides the entrepreneur with a complete picture of:

1. The amount funds and when they are coming into the organization.
2. Where funds are going and how much cash is available.
3. The projected financial position of the firm.
4. The plan explains how the entrepreneur intends to meet financial obligations and maintain the venture's liquidity.

A financial plan is an estimate of the total capital requirements of the company. It selects the most economical sources of finance. It also tells us how to use this finance profitably. Financial plan gives a total picture of the future financial activities of the company.

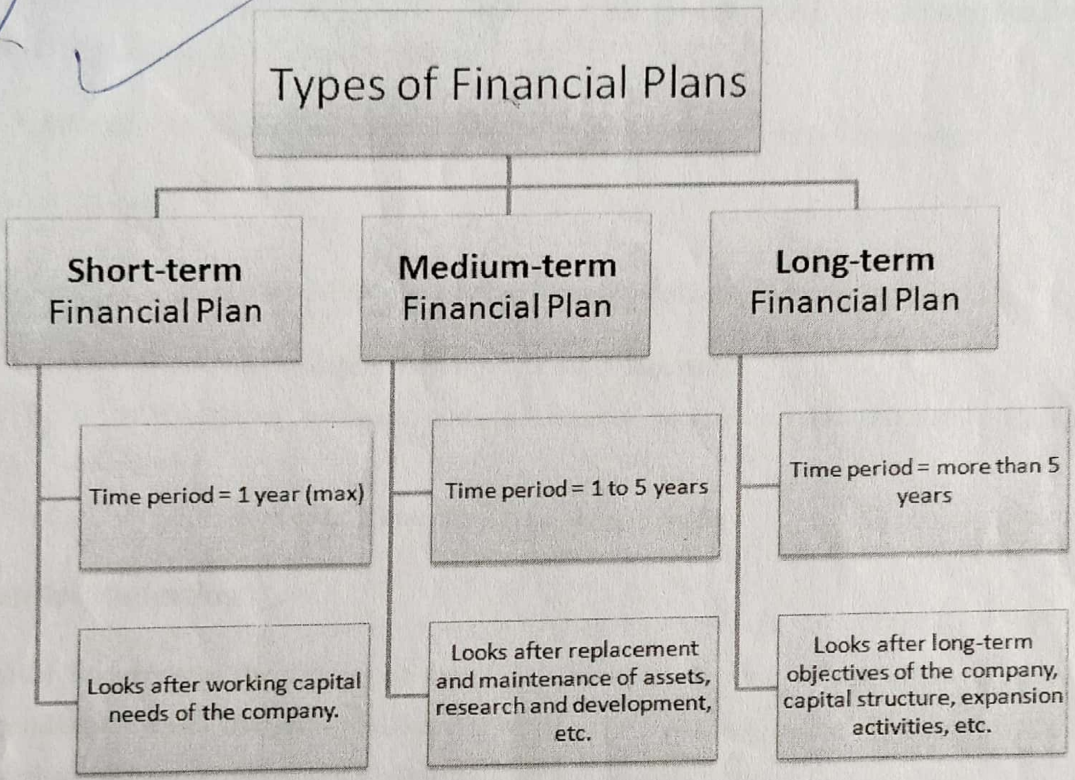
Fig:- Financial Resources (FR) + Financial Techniques (FT) = Financial Planning.

Financial plan is generally prepared during promotion stage. It is prepared by the Promoters (entrepreneurs) with the help of experienced (practising) professionals.

A financial plan contains answers to the following questions:

1. How much finance (short-term, medium-term and long-term) will be required by the company?
2. From where this finance will be acquired (gathered)? In other words, what are the sources of finance? That is, owned capital (promoter contribution, share capital) and borrowed capital (debentures, loans, overdrafts, etc.).
3. How the company will use this acquired finance? That is, application or utilisation of funds.

Types of Financial Plans



There are three types of financial plans:-

1. **Short-term financial plan** is prepared for maximum one year. This plan looks after the working capital needs of the company.
2. **Medium-term financial plan** is prepared for a period of one to five years. This plan looks after replacement and maintenance of assets, research and development, etc.
3. **Long-term financial plan** is prepared for a period of more than five years. It looks after the long-term financial objectives of the company, its capital structure, expansion activities, etc.

Operational and Capital budget

An operational budget is the annual budget.

An operational budget is the forecast of the cost and the profit of an organization which is used to monitor its trading activity usually for one year.

The operational budget includes the budget for sales, manufacturing, cost or merchandised percentage purchase selling expenses ext.

It is generally consists of several sub budgets the most important one is sales budget.

Sales Budget

Sales budget – An estimate of the expected volume of sales by month.

1. Cost of sales can be determined from the sales forecasts.
2. In manufacturing ventures, costs of internal production and subcontracting are compared.
3. Includes estimated ending inventory required as a buffer.

Capital Budgeting

Capital Budgeting is the process of making investment decision in fixed assets or capital expenditure. Capital Budgeting is also known as investment, decision making, planning of capital acquisition, planning and analysis of capital expenditure etc.

Objectives of Capital Budgeting

The following are the objectives of capital budgeting.

1. To find out the profitable capital expenditure.

2. To know whether the replacement of any existing fixed assets gives more return than earlier.

3. To decide whether a specified project is to be selected or not.

❖ Sources of Capital

Capital is the money which is needed to produce goods and services. All business must have capital in order to produce Assets and maintain their operations.

Sources of capital:-

(I) Friends and Family:-

If your business is well thought out and has a proper business plan, your family members together with your friends are the closest people to approach when it comes to raising capital for your business.

Your communication skills should save you at this point. The good thing with cash from friends as well as family members is that it comes with very low interest rates or none at all. This makes it cheap for you when running the business since you would not be required to pay interest rates on loans.

However, be careful when choosing the members since some of them might want a majority share of your company.

(II) Bank Loans

With a proper business plan, which has objectives and is commercially based, different financial institutions will be willing to give out small business loans to you. There are two types of business loans: the secured loans and the unsecured loans. The secured loans have collateral, meaning that if you fail in repaying them, your assets might be taken away by the bank. On the other hand, the unsecured loans have no security attached to them. What may limit you in both cases is if your personal FICO score is low.

(III) Credit Cards

Many companies nowadays borrow money on their personal and business credit cards so as to finance their businesses. This is due to the fact that they are cheaper and faster than merchant cash advances as well as invoice factoring. When using this method, however, you should be careful not to default in payments since the interest rates and cost on the cards build up very quickly.

(IV) Selling of Assets

When starting off a business venture, it is good to consider and use what you have to get what you want. Do you have any assets that you can easily convert into cash? If you have some, the better for you. Just sell them and use the cash to kick-start your business. It is vital to be aware that, in the business world, it is all about risking and nothing else. Sell off all your assets and invest in your business. Doing so is cheaper than going out for a loan which will automatically come with high interest rates.

(v) Finance Companies

Finance companies are also options you can use to get capital for your business. These companies are there to give small loans to small business owners. However, these companies do offer loans at high interest rates. Thus, it is good to be very careful when signing contracts with such companies. To make it even worse, they are loosely regulated.