

# PRO FORMA FINANCIAL STATEMENTS

Professor Karl T. Ulrich



Wharton  
UNIVERSITY of PENNSYLVANIA

ONLINE

## Pro Forma Financial Statements

- *Pro forma* (Latin for "as a matter of form") means a forecast of future financial statements for your business prepared according to typical accounting conventions.
- Analysis is generally done by month, for 36 months.
- The three standard statements: income statement, cash flow statement, balance sheet.
- Usually supported by a more detailed *budget* for the next 12 months.
  - What will you spend over the next 12 months?
  - Informs the use of proceeds from investment.

## Income Statement (aka Profit & Loss, P&L)

	2016		2017		2018	
<b>Revenue</b>						
Bottle Opener	171,500		240,100		312,130	
Wine Opener	239,020		334,628		435,016	
<b>Total Revenue</b>	<b>\$ 410,520</b>	<b>100%</b>	<b>\$ 574,728</b>	<b>100%</b>	<b>\$ 747,146</b>	<b>100%</b>
<b>Cost of Goods Sold</b>						
Bottle Opener	82,320		115,248		149,822	
Wine Opener	109,820		153,748		199,872	
<b>Total Cost of Goods Sold</b>	<b>192,140</b>	<b>47%</b>	<b>268,996</b>	<b>47%</b>	<b>349,695</b>	<b>47%</b>
<b>Gross Margin</b>	<b>218,380</b>	<b>53%</b>	<b>305,732</b>	<b>53%</b>	<b>397,452</b>	<b>53%</b>
<b>Payroll</b>	<b>199,013</b>		<b>237,047</b>		<b>308,161</b>	
<b>Operating Expenses</b>						
Advertising	33,600		34,608		35,646	
Insurance (other than health)	1,200		1,236		1,273	
Legal and Professional Services	2,000		2,060		2,122	
Licenses	300		313		331	
Office Expense	15,000		15,450		15,914	
Supplies	600		618		637	
Travel, Meals and Entertainment	3,320		3,420		3,522	
Utilities	1,440		1,483		1,528	
Miscellaneous	900		927		955	
<b>Total Operating Expenses</b>	<b>\$ 58,360</b>	<b>14%</b>	<b>\$ 60,117</b>	<b>10%</b>	<b>\$ 61,927</b>	<b>8%</b>
<b>EBITDA (aka income before other exp)</b>	<b>\$ (38,993)</b>	<b>-9%</b>	<b>\$ 8,568</b>	<b>1%</b>	<b>\$ 27,364</b>	<b>4%</b>
<b>Other Expenses</b>						
Amortized Start-up Expenses	3,000		3,000		3,000	
Depreciation	-		-		-	
Interest	-		-		-	
Commercial Loan	-		-		-	
Commercial Mortgage	-		-		-	
Credit Card Debt	-		-		-	
Vehicle Loans	-		-		-	
Other Bank Debt	-		-		-	
Line of Credit	329		2,497		3,958	
Bad Debt Expense	-		-		-	
<b>Total Other Expenses</b>	<b>\$ 3,329</b>	<b>1%</b>	<b>\$ 5,497</b>	<b>1%</b>	<b>\$ 6,958</b>	<b>1%</b>
<b>Net Income Before Income Tax</b>	<b>\$ (42,321)</b>		<b>\$ 3,071</b>		<b>\$ 20,405</b>	
<b>Income Tax</b>	<b>\$ -</b>		<b>\$ 1,214</b>		<b>\$ 4,681</b>	
<b>Net Income/Loss</b>	<b>\$ (42,321)</b>	<b>-10%</b>	<b>\$ 1,857</b>	<b>0%</b>	<b>\$ 15,724</b>	<b>2%</b>

## Cash Flow Statement

	Year 1 Totals	Year 2 Totals	Year 3 Totals
<b>Beginning Balance</b>			
<b>Cash Inflows</b>			
Cash Sales	\$123,156	\$ 172,418	\$ 224,144
Accounts Receivable	\$223,788	\$ 376,879	\$ 496,301
<b>Total Cash Inflows</b>	<b>\$346,944</b>	<b>\$ 549,298</b>	<b>\$ 720,444</b>
<b>Cash Outflows</b>			
Investing Activities			
New Fixed Asset Purchases	\$ -	\$ -	\$ -
Additional Inventory	\$ -	\$ -	\$ -
Cost of Goods Sold	\$162,640	\$ 257,196	\$ 337,305
Operating Activities			
Operating Expenses	\$ 58,360	\$ 60,117	\$ 61,927
Payroll	\$199,013	\$ 237,047	\$ 308,161
Taxes	\$ -	\$ -	\$ 4,681
Financing Activities			
Loan Payments	\$ -	\$ -	\$ -
Owners Distribution	\$ 329	\$ 2,497	\$ 3,958
Line of Credit Interest	\$ -	\$ -	\$ -
Line of Credit Repayments	\$ -	\$ -	\$ -
Dividends Paid	\$ -	\$ -	\$ -
<b>Total Cash Outflows</b>	<b>\$420,341</b>	<b>\$ 556,857</b>	<b>\$ 716,032</b>
<b>Net Cash Flows</b>	<b>\$ (73,397)</b>	<b>\$ (7,560)</b>	<b>\$ 4,412</b>
<b>Operating Cash Balance</b>			
<b>Line of Credit Drawdown</b>	<b>\$ 9,356</b>	<b>\$ 34,743</b>	<b>\$ 10,418</b>
<b>Ending Cash Balance</b>			
<b>Line of Credit Balance</b>			

## Balance Sheet

	2016	2017	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	10,959	36,928	51,758
Accounts Receivable	63,576	89,006	115,708
Inventory	220,000	220,000	220,000
Prepaid Expenses	5,200	2,600	-
Other Initial Costs	800	400	-
<b>Total Current Assets</b>	<b>\$ 300,535</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>Fixed Assets</b>			
Real Estate - Land	-	-	-
Real Estate - Building	-	-	-
Leasehold Improvements	-	-	-
Equipment	-	-	-
Furniture and Fixtures	-	-	-
Vehicles	-	-	-
Other	-	-	-
<b>Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>(Less Accumulated Depreciation)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 300,534</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
Accounts Payable	29,500	41,300	53,690
Commercial Loan Balance	-	-	-
Commercial Mortgage Balance	-	-	-
Credit Card Debt Balance	-	-	-
Vehicle Loans Balance	-	-	-
Other Bank Debt Balance	-	-	-
Line of Credit Balance	9,356	44,099	54,517
<b>Total Liabilities</b>	<b>\$ 38,856</b>	<b>\$ 85,399</b>	<b>\$ 108,207</b>
<b>Equity</b>			
Common Stock	304,000	304,000	304,000
Retained Earnings	(42,321)	(40,465)	(24,740)
Dividends Dispersed/Owners Draw	-	-	-
<b>Total Equity</b>	<b>\$ 261,679</b>	<b>\$ 263,535</b>	<b>\$ 279,260</b>
<b>Total Liabilities and Equity</b>	<b>\$ 300,534</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>Balance sheet in or out of balance?</b>	<b>Balanced!</b>	<b>Balanced!</b>	<b>Balanced!</b>

## Questions Answered by Pro Forma Financial Statements

1. What do I believe this business could look like financially in the future?
  - And therefore what might it be worth?
2. What is the relationship between my key performance indicators (the managerial parameters) and financial performance?
3. How much cash do I need for working capital and for losses I sustain prior to breaking even?
4. Is my operating plan internally consistent and financially feasible?



WHARTON

Source: Belle-V Kitchen

## Income Statement (aka Profit & Loss, P&L)

	2016		2017		2018	
<b>Revenue</b>						
Bottle Opener	171,500		240,100		312,130	
Wine Opener	239,020		334,628		435,016	
<b>Total Revenue</b>	<b>\$ 410,520</b>	<b>100%</b>	<b>\$ 574,728</b>	<b>100%</b>	<b>\$ 747,146</b>	<b>100%</b>
<b>Cost of Goods Sold</b>						
Bottle Opener	82,320		115,248		149,822	
Wine Opener	109,820		153,748		199,872	
<b>Total Cost of Goods Sold</b>	<b>192,140</b>	<b>47%</b>	<b>268,996</b>	<b>47%</b>	<b>349,695</b>	<b>47%</b>
<b>Gross Margin</b>	<b>218,380</b>	<b>53%</b>	<b>305,732</b>	<b>53%</b>	<b>397,452</b>	<b>53%</b>
<b>Payroll</b>	<b>199,013</b>		<b>237,047</b>		<b>308,161</b>	
<b>Operating Expenses</b>						
Advertising	33,600		34,608		35,646	
Insurance (other than health)	1,200		1,236		1,273	
Legal and Professional Services	2,000		2,060		2,122	
Licenses	300		313		331	
Office Expense	15,000		15,450		15,914	
Supplies	600		618		637	
Travel, Meals and Entertainment	3,320		3,420		3,522	
Utilities	1,440		1,483		1,528	
Miscellaneous	900		927		955	
<b>Total Operating Expenses</b>	<b>\$ 58,360</b>	<b>14%</b>	<b>\$ 60,117</b>	<b>10%</b>	<b>\$ 61,927</b>	<b>8%</b>
<b>EBITDA (aka income before other exp)</b>	<b>\$ (38,993)</b>	<b>-9%</b>	<b>\$ 8,568</b>	<b>1%</b>	<b>\$ 27,364</b>	<b>4%</b>
<b>Other Expenses</b>						
Amortized Start-up Expenses	3,000		3,000		3,000	
Depreciation	-		-		-	
Interest	-		-		-	
Commercial Loan	-		-		-	
Commercial Mortgage	-		-		-	
Credit Card Debt	-		-		-	
Vehicle Loans	-		-		-	
Other Bank Debt	-		-		-	
Line of Credit	329		2,497		3,958	
Bad Debt Expense	-		-		-	
<b>Total Other Expenses</b>	<b>\$ 3,329</b>	<b>1%</b>	<b>\$ 5,497</b>	<b>1%</b>	<b>\$ 6,958</b>	<b>1%</b>
<b>Net Income Before Income Tax</b>	<b>\$ (42,321)</b>		<b>\$ 3,071</b>		<b>\$ 20,405</b>	
<b>Income Tax</b>	<b>\$ -</b>		<b>\$ 1,214</b>		<b>\$ 4,681</b>	
<b>Net Income/Loss</b>	<b>\$ (42,321)</b>	<b>-10%</b>	<b>\$ 1,857</b>	<b>0%</b>	<b>\$ 15,724</b>	<b>2%</b>



*start here*

## Cash Flow Statement

	Year 1 Totals	Year 2 Totals	Year 3 Totals
<b>Beginning Balance</b>			
<b>Cash Inflows</b>			
Cash Sales	\$123,156	\$ 172,418	\$ 224,144
Accounts Receivable	\$223,788	\$ 376,879	\$ 496,301
<b>Total Cash Inflows</b>	<b>\$346,944</b>	<b>\$ 549,298</b>	<b>\$ 720,444</b>
<b>Cash Outflows</b>			
Investing Activities			
New Fixed Asset Purchases	\$ -	\$ -	\$ -
Additional Inventory	\$ -	\$ -	\$ -
Cost of Goods Sold	\$162,640	\$ 257,196	\$ 337,305
Operating Activities			
Operating Expenses	\$ 58,360	\$ 60,117	\$ 61,927
Payroll	\$199,013	\$ 237,047	\$ 308,161
Taxes	\$ -	\$ -	\$ 4,681
Financing Activities			
Loan Payments	\$ -	\$ -	\$ -
Owners Distribution	\$ 329	\$ 2,497	\$ 3,958
Line of Credit Interest	\$ -	\$ -	\$ -
Line of Credit Repayments	\$ -	\$ -	\$ -
Dividends Paid	\$ -	\$ -	\$ -
<b>Total Cash Outflows</b>	<b>\$420,341</b>	<b>\$ 556,857</b>	<b>\$ 716,032</b>
<b>Net Cash Flows</b>	<b>\$ (73,397)</b>	<b>\$ (7,560)</b>	<b>\$ 4,412</b>
<b>Operating Cash Balance</b>			
<b>Line of Credit Drawdown</b>	<b>\$ 9,356</b>	<b>\$ 34,743</b>	<b>\$ 10,418</b>
<b>Ending Cash Balance</b>			
<b>Line of Credit Balance</b>			

## Balance Sheet

	2016	2017	2018
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	10,959	36,928	51,758
Accounts Receivable	63,576	89,006	115,708
Inventory	220,000	220,000	220,000
Prepaid Expenses	5,200	2,600	-
Other Initial Costs	800	400	-
<b>Total Current Assets</b>	<b>\$ 300,535</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>Fixed Assets</b>			
Real Estate - Land	-	-	-
Real Estate - Building	-	-	-
Leasehold Improvements	-	-	-
Equipment	-	-	-
Furniture and Fixtures	-	-	-
Vehicles	-	-	-
Other	-	-	-
<b>Total Fixed Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>(Less Accumulated Depreciation)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Assets</b>	<b>\$ 300,534</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
Accounts Payable	29,500	41,300	53,690
Commercial Loan Balance	-	-	-
Commercial Mortgage Balance	-	-	-
Credit Card Debt Balance	-	-	-
Vehicle Loans Balance	-	-	-
Other Bank Debt Balance	-	-	-
Line of Credit Balance	9,356	44,099	54,517
<b>Total Liabilities</b>	<b>\$ 38,856</b>	<b>\$ 85,399</b>	<b>\$ 108,207</b>
<b>Equity</b>			
Common Stock	304,000	304,000	304,000
Retained Earnings	(42,321)	(40,465)	(24,740)
Dividends Dispersed/Owners Draw	-	-	-
<b>Total Equity</b>	<b>\$ 261,679</b>	<b>\$ 263,535</b>	<b>\$ 279,260</b>
<b>Total Liabilities and Equity</b>	<b>\$ 300,534</b>	<b>\$ 348,934</b>	<b>\$ 387,466</b>
<b>Balance sheet in or out of balance?</b>	<b>Balanced!</b>	<b>Balanced!</b>	<b>Balanced!</b>

Income Statement Year 1													
	January	February	March	April	May	June	July	August	September	October	November	December	Annual Totals
<b>Revenue</b>													
Bottle Opener	5,500	8,000	9,000	9,000	11,000	15,000	18,000	18,500	19,000	18,000	18,000	22,500	\$ 171,500
Wine Opener	6,660	8,510	11,470	13,320	15,540	17,760	19,240	23,680	25,160	26,640	30,340	40,700	\$ 239,020
<b>Total Revenue</b>	<b>\$ 12,160</b>	<b>\$ 16,510</b>	<b>\$ 20,470</b>	<b>\$ 22,320</b>	<b>\$ 26,540</b>	<b>\$ 32,760</b>	<b>\$ 37,240</b>	<b>\$ 42,180</b>	<b>\$ 44,160</b>	<b>\$ 44,640</b>	<b>\$ 48,340</b>	<b>\$ 63,200</b>	<b>\$ 410,520</b>
<b>Cost of Goods Sold</b>													
Bottle Opener	2,640	3,840	4,320	4,320	5,280	7,200	8,640	8,880	9,120	8,640	8,640	10,800	\$ 82,320
Wine Opener	3,060	3,910	5,270	6,120	7,140	8,160	8,840	10,880	11,560	12,240	13,940	18,700	\$ 109,820
<b>Total Cost of Goods Sold</b>	<b>\$ 5,700</b>	<b>\$ 7,750</b>	<b>\$ 9,590</b>	<b>\$ 10,440</b>	<b>\$ 12,420</b>	<b>\$ 15,360</b>	<b>\$ 17,480</b>	<b>\$ 19,760</b>	<b>\$ 20,680</b>	<b>\$ 20,880</b>	<b>\$ 22,580</b>	<b>\$ 29,500</b>	<b>\$ 192,140</b>
<b>Gross Margin</b>	<b>\$ 6,460</b>	<b>\$ 8,760</b>	<b>\$ 10,880</b>	<b>\$ 11,880</b>	<b>\$ 14,120</b>	<b>\$ 17,400</b>	<b>\$ 19,760</b>	<b>\$ 22,420</b>	<b>\$ 23,480</b>	<b>\$ 23,760</b>	<b>\$ 25,760</b>	<b>\$ 33,700</b>	<b>\$ 218,380</b>
<b>Payroll</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 16,584</b>	<b>\$ 199,013</b>
<b>Operating Expenses</b>													
Advertising	2,400	2,400	2,400	2,400	2,400	3,600	2,400	2,400	2,400	2,400	3,600	4,800	\$ 33,600
Insurance (other than health)	1,200	-	-	-	-	-	-	-	-	-	-	-	\$ 1,200
Legal and Professional Services	-	2,000	-	-	-	-	-	-	-	-	-	-	\$ 2,000
Licenses	-	-	-	300	-	-	-	-	-	-	-	-	\$ 300
Office Expense	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	\$ 15,000
Supplies	50	50	50	50	50	50	50	50	50	50	50	50	\$ 600
Travel, Meals and Entertainment	120	120	1,000	120	120	1,000	140	140	140	140	140	140	\$ 3,320
Utilities	120	120	120	120	120	120	120	120	120	120	120	120	\$ 1,440
Miscellaneous	75	75	75	75	75	75	75	75	75	75	75	75	\$ 900
<b>Total Operating Expenses</b>	<b>\$ 5,215</b>	<b>\$ 6,015</b>	<b>\$ 4,895</b>	<b>\$ 4,315</b>	<b>\$ 4,015</b>	<b>\$ 6,095</b>	<b>\$ 4,035</b>	<b>\$ 4,035</b>	<b>\$ 4,035</b>	<b>\$ 4,035</b>	<b>\$ 5,235</b>	<b>\$ 6,435</b>	<b>\$ 58,360</b>
<b>Income (Before Other Expenses)</b>	<b>\$ (15,339)</b>	<b>\$ (13,839)</b>	<b>\$ (10,599)</b>	<b>\$ (9,019)</b>	<b>\$ (6,479)</b>	<b>\$ (5,279)</b>	<b>\$ (859)</b>	<b>\$ 1,801</b>	<b>\$ 2,861</b>	<b>\$ 3,141</b>	<b>\$ 3,941</b>	<b>\$ 10,681</b>	<b>\$ (38,993)</b>
<b>Other Expenses</b>													
Amortized Start-up Expenses	250	250	250	250	250	250	250	250	250	250	250	250	\$ 3,000
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
Interest	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
Bad Debt Expense	-	-	-	-	-	-	-	-	-	-	-	-	\$ -
<b>Total Other Expenses</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>275</b>	<b>304</b>	<b>312</b>	<b>312</b>	<b>312</b>	<b>312</b>	<b>\$ 3,329</b>
<b>Net Income Before Income Tax</b>	<b>\$ (15,589)</b>	<b>\$ (14,089)</b>	<b>\$ (10,849)</b>	<b>\$ (9,269)</b>	<b>\$ (6,729)</b>	<b>\$ (5,529)</b>	<b>\$ (1,134)</b>	<b>\$ 1,496</b>	<b>\$ 2,548</b>	<b>\$ 2,828</b>	<b>\$ 3,628</b>	<b>\$ 10,368</b>	<b>\$ (42,321)</b>
<b>Income Tax</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Profit/Loss</b>	<b>\$ (15,589)</b>	<b>\$ (14,089)</b>	<b>\$ (10,849)</b>	<b>\$ (9,269)</b>	<b>\$ (6,729)</b>	<b>\$ (5,529)</b>	<b>\$ (1,134)</b>	<b>\$ 1,496</b>	<b>\$ 2,548</b>	<b>\$ 2,828</b>	<b>\$ 3,628</b>	<b>\$ 10,368</b>	<b>\$ (42,321)</b>

ILLUSTRATIVE ONLY

# Income Statement Years 1-3

Revenue	2016		2017		2018	
Bottle Opener	171,500		240,100		312,130	
Wine Opener	239,020		334,628		435,016	
<b>Total Revenue</b>	<b>\$ 410,520</b>	<b>100%</b>	<b>\$ 574,728</b>	<b>100%</b>	<b>\$ 747,146</b>	<b>100%</b>
Cost of Goods Sold						
Bottle Opener	82,320		115,248		149,822	
Wine Opener	109,820		153,748		199,872	
<b>Total Cost of Goods Sold</b>	<b>192,140</b>	<b>47%</b>	<b>268,996</b>	<b>47%</b>	<b>349,695</b>	<b>47%</b>
<b>Gross Margin</b>	<b>218,380</b>	<b>53%</b>	<b>305,732</b>	<b>53%</b>	<b>397,452</b>	<b>53%</b>
<b>Payroll</b>	<b>199,013</b>		<b>237,047</b>		<b>308,161</b>	
Operating Expenses						
Advertising	33,600		34,608		35,646	
Insurance (other than health)	1,200		1,236		1,273	
Legal and Professional Services	2,000		2,060		2,122	
Licenses	300		315		331	
Office Expense	15,000		15,450		15,914	
Supplies	600		618		637	
Travel, Meals and Entertainment	3,320		3,420		3,522	
Utilities	1,440		1,483		1,528	
Miscellaneous	900		927		955	
<b>Total Operating Expenses</b>	<b>\$ 58,360</b>	<b>14%</b>	<b>\$ 60,117</b>	<b>10%</b>	<b>\$ 61,927</b>	<b>8%</b>
<b>EBITDA (aka income before other exp)</b>	<b>\$ (38,993)</b>	<b>-9%</b>	<b>\$ 8,568</b>	<b>1%</b>	<b>\$ 27,364</b>	<b>4%</b>
Other Expenses						
Amortized Start-up Expenses	3,000		3,000		3,000	
Depreciation	-		-		-	
Interest						
Commercial Loan	-		-		-	
Commercial Mortgage	-		-		-	
Credit Card Debt	-		-		-	
Vehicle Loans	-		-		-	
Other Bank Debt	-		-		-	
Line of Credit	329		2,497		3,958	
Bad Debt Expense	-		-		-	
<b>Total Other Expenses</b>	<b>\$ 3,329</b>	<b>1%</b>	<b>\$ 5,497</b>	<b>1%</b>	<b>\$ 6,958</b>	<b>1%</b>
<b>Net Income Before Income Tax</b>	<b>\$ (42,321)</b>		<b>\$ 3,071</b>		<b>\$ 20,405</b>	
<b>Income Tax</b>	<b>\$ -</b>		<b>\$ 1,214</b>		<b>\$ 4,681</b>	
<b>Net Income/Loss</b>	<b>\$ (42,321)</b>	<b>-10%</b>	<b>\$ 1,857</b>	<b>0%</b>	<b>\$ 15,724</b>	<b>2%</b>

EBITDA =  
earnings before interest, taxes,  
depreciation, and amortization

Often used for valuation calculations  
for more mature companies.

reneurship

ILLUSTRATIVE ONLY



## Use a Managerial Model to Drive the Numbers

Instead of entering the revenue and cost figures directly, calculate them based on more easily understood and modified parameters.

Income Statement Year 1				
	January	February	March	April
<b>Revenue</b>				
Bottle Opener	5,500	8,000	9,000	9,000
Wine Opener	6,660	8,510	11,470	13,320
<b>Total Revenue</b>	<b>\$ 12,160</b>	<b>\$ 16,510</b>	<b>\$ 20,470</b>	<b>\$ 22,320</b>
<b>Cost of Goods Sold</b>				
Bottle Opener	2,640	3,840	4,320	4,320
Wine Opener	3,060	3,910	5,270	6,120
<b>Total Cost of Goods Sold</b>	<b>\$ 5,700</b>	<b>\$ 7,750</b>	<b>\$ 9,590</b>	<b>\$ 10,440</b>

**For example:** By month...

Number of retailers  
 Openers sold per store  
 Average selling price to retailers

Number of units sold directly to consumers  
 Average direct sales price

Factory price per unit  
 Freight per unit  
 Duties per unit

*Every business has different revenue and cost drivers, so create those that make your plan easiest to understand.*

## Which Scenario Do You Show?

- Realistic plan, conservative plan, or optimistic plan?
- In my 28 ventures, I've seen 3 exceed the plan significantly.
- As a matter of practice most entrepreneurs show the 80th – 90th percentile scenario before there is significant revenue.
  - As a company matures, operating plans and budgets tend to become more realistic.
  - Not ideal, but is the reality of much of current behavior...
  - Generally bad form to assert “these are conservative assumptions.” They almost never are!

## Some Best Practices

- Build your model using key revenue and cost drivers (and other parameters) so your assumptions are clear.
- Start with the Income Statement and use that to drive the Cash Flow Statement and Balance Sheet.
- Use detailed worksheets to drive summary sheets.
- Model monthly, typically for 36 months, with an annual summary.
- May summarize financials in your pitch deck for investors, but probably want a separate three-page document with the three standard statements (monthly for next 12 months, plus summary of years 1, 2, and 3).

## Practical Advice

- You need to know some accounting. At a minimum, take an on-line course. Wharton offers a great one!
- Start by building your own monthly Income Statement using a spreadsheet, and based on your key revenue and cost drivers.
- But, getting the Cash Flow Statement and Balance Sheet to link properly can be tricky.
- Engage a partner or consultant who is good with spreadsheets, if you are not.
- Free Excel templates at <http://www.score.org> (non-profit organization providing consulting and mentoring services)
- Paid services such as [Liveplan.com](http://Liveplan.com) may also be useful.



---

ONLINE