



# Financial Planning

# Why do you need money?

## As a startup

- You often have to invest heavily in assets
- You have to invest in working capital
- You often have to finance losses

# Session Plan

- Why you need money when you start?
- What are the steps of Financing Planning?
- Financial planning using a Case Study
  - ✓ Sales forecast
  - ✓ Cost forecast
  - ✓ Income and cash flow forecast
  - ✓ Balance sheet
- Assignment



# Steps in Financial Planning



**Sales forecast**



**Costs forecast**



**Profit & Loss and cash flow forecast**

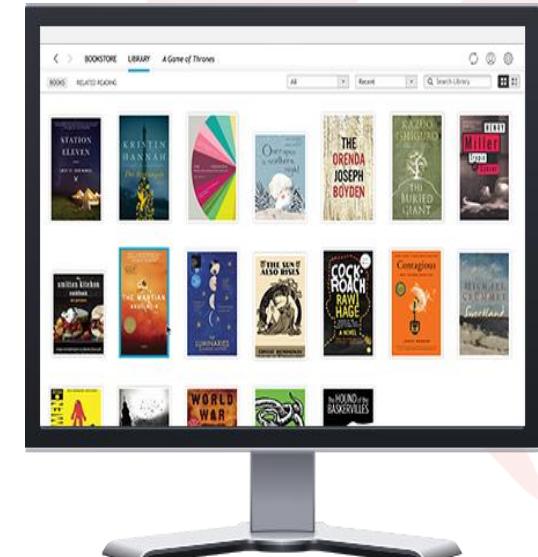
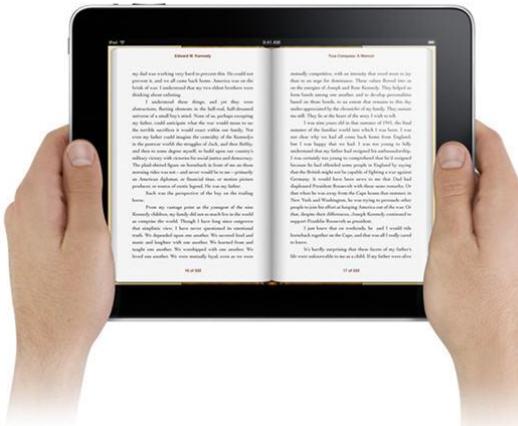


**Balance sheet**

# Case Study (New Venture)

## SCENARIO:

- New venture by a student of Thapar University (TU).
- E-textbooks and e-reference books.
- Provide a pack of recommended e-books for semester.



# Case Study (New Venture)

## SOURCES OF FUNDS:

- Prize seed money of ₹50,000
- Personal Saving of ₹40,000
- Bank loan of ₹4,80,000 @ 12% p.a.



## USAGE OF FUNDS:

- Initial investments of ₹48,000
- Furniture and other computing facility
- Depreciated in 4 years



# Case Study (New Venture)

## SALES FORECAST:

- Expected Sale: 1000 units
- The expected monthly turnover pattern:

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10%	5%	15%	5%	10%	2%	10%	5%	15%	5%	15%	3%

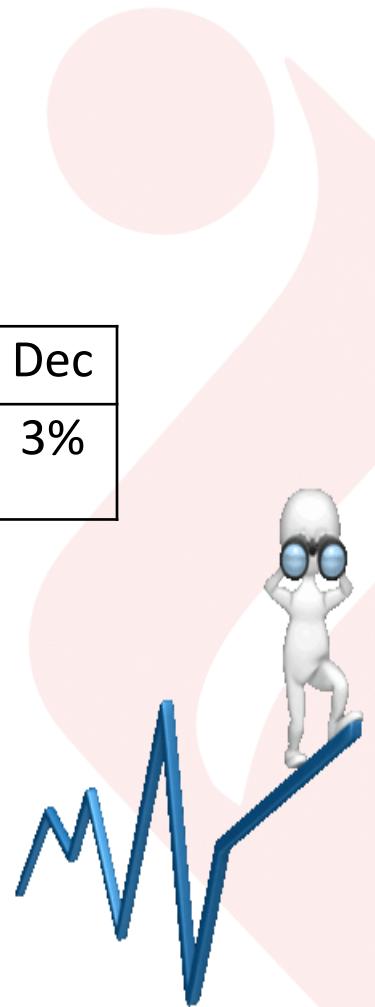
## COST FORECAST:

- The annual subscription costs of e-books: ₹ 5,00,000 (1000 users).
- Day-to-day Expenses:

Rent: ₹ 2000/month,

Assistant's salary: ₹ 5000/month,

Miscellaneous expenses: ₹ 3000/month



# Monthly Profit & Loss Statement

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Units												
Price Per Unit												
<b>Costs</b>												
Re-subscription cost												
Office Rent												
Assistant's Salary												
Miscellaneous Costs												
Depreciation												
Interest												
<b>Total Costs</b>												
<b>Operating Income</b>	34200	9200	59200	9200	34200	-5800	34200	9200	59200	9200	59200	-800
Income Tax	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net Profit (loss)</b>	34200	9200	59200	9200	34200	-5800	34200	9200	59200	9200	59200	-800

# What is a Cash Flow Statement?

Statement of Cash Flows		
For the year ending 31 December, 20XX (in thousand dollars)		
IFRS box		
<b>Cash flow from operating activities</b>		
Net Income	Operating activities	Investing activities
Add: Depreciation		
Less: Increase in Current Assets		
Add: Increase in Current Liabilities		
Net Cash flow from operating activities		A
<b>Cash flow from investing activities</b>		
Purchase of plant and equipment		XXX
Proceeds from sale of plant and equipment		XXX
Purchase/Proceeds from sales of investment securities		XXX
Net Cash flow from investing activities		B
<b>Cash flow from financing activities</b>		
Proceeds from/payments to debt		XXX
Proceeds from issuing stock		XXX
Dividends paid		XXX
Net Cash flow from financing activities		C
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>A+B+C</b>

Flow Statement

Cash Flow from Operations

Cash Flow from Investing

Cash Flow from Financing

# Monthly Cash Flow Statements

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Operating Activities</b>												
Net Profit(loss)	34200	9200	59200	9200	34200	-5800	34200	9200	59200	9200	59200	-800
Add: Depreciation	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Subtract: Increase in CA (Inventory)	-500000											
Net CF from Operating Activities	-464800	10200	60200	10200	35200	-4800	35200	10200	60200	10200	60200	200
<b>Investment Activities</b>												
Furniture & Computer	-48000											
Net CF from Investing Activities	-48000	0	0	0	0	0	0	0	0	0	0	0
<b>Financing Activities</b>												
Bank Loan	480000											
Personal cash	40000											
Seed Money	50000											
Net CF from Financing Activities	570000	0	0	0	0	0	0	0	0	0	0	0
<b>Cash inflow/outflow</b>	57200	10200	60200	10200	35200	-4800	35200	10200	60200	10200	60200	200

# What is a Balance Sheet?

ABC COMPANY BALANCE SHEET AS OF JUNE 1, 2014			
Usage of Funds: Assets		Sources of Funds: Liabilities & Owner's Equity	
Cash	XXX	Accounts payable	XXX
Prepaid Expenses	XXX	Taxes payable	<u>XXX</u>
Accounts receivable	XXX	<b>Current liabilities</b>	C
Inventories	<u>XXX</u>	Loans payable	<u>XXX</u>
<b>Current assets</b>	A	<b>Long-term Liabilities</b>	D
Land	XXX	Total liabilities	C+D
Equipment	XXX	Owner's Equity	XXX
Accumulated depreciation	(XXX)	Retained earnings	<u>XXX</u>
Investments	<u>XXX</u>	Equity	E
<b>Fixed Assets</b>	B		
<b>Total</b>	A+B		

Stock statement

Assets = Liabilities +  
Equity

# Balance Sheets

## Monthly Balance Sheet As on January 31, 2017

### Assets

#### Fixed Asset

Furniture & Computer	₹48,000.00
Accumulated Depreciation	₹(1,000.00)
<b>Current Asset</b>	
Cash	₹57,200.00
Inventory	₹5,00,000.00
<b>Total Assets</b>	₹6,04,200.00

### Liabilities

Loan Payable	₹4,80,000.00
<b>Owner's Equity</b>	
Owner's contributions	₹40,000.00
Retained Earnings(deficit)	₹34,200.00
Seed Money	₹50,000.00
<b>Total liabilities</b>	₹6,04,200.00

## Annual Balance Sheet As on December 31, 2017

### Assets

#### Fixed Asset

Furniture & Computer	₹48,000.00
Accumulated Depreciation	₹(12,000.00)
<b>Current Asset</b>	
Cash	₹8,44,400.00
Inventory	₹-
<b>Total Assets</b>	₹8,80,400.00

### Liabilities

Loan Payable	₹4,80,000.00
<b>Owner's Equity</b>	
Owner's contributions	₹40,000.00
Retained Earnings(deficit)	₹3,10,400.00
Seed Money	₹50,000.00
<b>Total liabilities</b>	₹8,80,400.00

# References

- Byers, T.H., Dorf, R.C., and Nelson, A.J. (2015). The Financial Plan. In *Technology Ventures: From Idea to Enterprise*. (pp. 379-402). Fourth Edition. McGraw-Hill Education

# Assignment

- Given as handouts
- To be submitted before the next class in excel
- Bring your laptops in the next class
- We will then discuss scenario analysis with changes in costs/prices

A recent graduated engineer wants to start a consultancy firm in IT-software. In order to do so, he thinks that he needs to buy hard- en software for an amount of € 25.000. Added to this he needs office equipment of € 10.000. Next to this he also needs a car in order to visit customers. Estimated price of this car is €15.000,-. All given amounts are excl. 20% VAT. The office equipment and the car are depreciated in 5 years, hard and software in 3 years.

The engineer has saved € 5.000 and a relative is willing to lend him € 10.000. For the remaining financial need he has to use bank credit or accounts payable. In the first year, the engineer is expecting to get a turnover of € 60.000 (excl. 20% VAT). He expects that customers will pay him after (on average) 2 months.

The rent for his office location is € 5.000 (excl. 20% VAT) a year (monthly prepaid). Other expenses are estimated at € 12.000 (excl. VAT) and are equally divided over the year. The purchase price of the software is 10% of the turnover. The suppliers of this software are paid after 2 months. VAT to be paid or received is calculated per month. For convenience we always take a 20% VAT percentage. VAT payable is paid one month after the VAT obligation arises. VAT receivable is received 3 months after the month the claim arises. In the last quarter the entrepreneur expects that he need a administrative assistant. This assistant will cost him € 2.000 a month. The bank interest rate is 8% is calculated per month and is paid after each quarter. Private expenses are estimated at € 1.500 every month.

The turnover is expected to follow the following pattern:

January	0%
February	5%
March	5%
April	10%
May	10%
June	10%
July	5%
August	5%
September	15%
October	15%
November	15%
December	5%

## Assignment:

Prepare a cashflow forecast for the first year.

## Attention points:

- Turnover and actual receiving cash are 2 distinctive things.
- Purchases and actually paying this in cash are 2 distinctive things.

# Conclusion

## Financial planning

- Why?
- Steps
  - ✓ Sales forecast
  - ✓ Cost forecast
  - ✓ Income and cash flow forecast
  - ✓ Balance sheet
- Benefits



**THANK YOU  
Questions ?**