



LM THAPAR School of  
Management  
*new India starts here*

# 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**



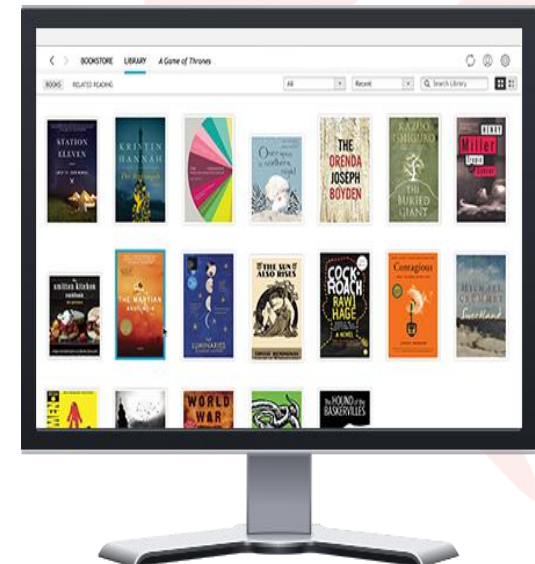
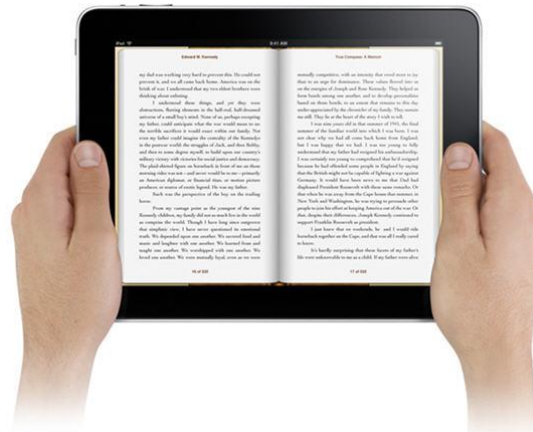
**Balance sheet**



# 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?

XYZ Cash Flow Statement For the year ending 31 December, 20XX (in thousand dollars)		Statement of Cash Flows	Flow Statement
Cash flow from operating activities		Operating activities	Cash Flow from Operations
Net Income	XXX		
Add: Depreciation	XXX		
Less: Increase in Current Assets	XXX		
Add: Increase in Current Liabilities	XXX		
Net Cash flow from operating activities	A		
Cash flow from investing activities		Investing activities	Cash Flow from Investing
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		
Cash flow from financing activities		Financing activities	Cash Flow from Financing
Proceeds from/payments to debt	XXX		
Proceeds from issuing stock	XXX		
Dividends paid	XXX		
Net Cash flow from financing activities	C		
Net increase (decrease) in cash and cash equivalents	A+B+C		

# 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>	<b>57200</b>	<b>10200</b>	<b>60200</b>	<b>10200</b>	<b>35200</b>	<b>-4800</b>	<b>35200</b>	<b>10200</b>	<b>60200</b>	<b>10200</b>	<b>60200</b>	<b>200</b>

# 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>		
<b>Current assets</b>	A	Loans payable	<u>XXX</u>
		<b>Long-term Liabilities</b>	D
Land	XXX	Total liabilities	C+D
Equipment	XXX		
Accumulated depreciation	(XXX)		
Investments	<u>XXX</u>	Owner's Equity	XXX
<b>Fixed Assets</b>	B	Retained earnings	<u>XXX</u>
		<b>Equity</b>	E
<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)

#### Current Asset

Cash	₹57,200.00
Inventory	₹5,00,000.00
<b>Total Assets</b>	<b>₹6,04,200.00</b>

### Liabilities

Loan Payable	₹4,80,000.00
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#### Owner's Equity

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

## Annual Balance Sheet As on December 31, 2017

### Assets

#### Fixed Asset

Furniture & Computer	₹48,000.00
Accumulated Depreciation	₹(12,000.00)

#### Current Asset

Cash	₹8,44,400.00
Inventory	₹-
<b>Total Assets</b>	<b>₹8,80,400.00</b>

### Liabilities

Loan Payable	₹4,80,000.00
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#### Owner's Equity

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

- 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 ?

