

Chapter #10

"The Financial Plan."

Short Questions

1. Financial Plan:

⇒ Financial plan describes each of the activities, resources, equipment and materials that are needed to be achieved objective and also including time frame.

2. Sales Budget:

⇒ A sales budget provides an estimate of the volume of goods and services that a company proposes to sell in a future period.

⇒ Mostly sales budgets include monthly and quarterly figures as well.

⇒ Budget provides details in both dollars and units.

⇒ It is an outline of sales expectations set by management, usually for a period of one year.

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3. Operating Costs:

- ⇒ Operating costs are the expenses which are related to the operation of a business, or to the operation of a device, component, piece of equipment or facility.
- ⇒ They are the cost of resources used by an organization just to maintain its existence.

4. Pro forma Income Statement:

- ⇒ It is a statement prepared by the business entity to prepare the projections of income & expenses which they expect to have in the future by following certain assumptions such as competition level in the market, size of the market, growth rate etc.

Steps:

- (i) Compute other expenses.
- (ii) Determine a production schedule.
- (iii) Establish a sales projection.
- (iv) Determine profit by completing the actual pro forma statement.

5. Pro forma Balance Sheet :

- ⇒ A pro-forma balance sheet is a tabulation of future projections and can help your business manage your assets now for better results in the future.
- ⇒ Balance sheet containing imaginary accounts or figures for illustrative purpose.
- ⇒ Balance sheet that gives retroactive effect to new financing, combination or other change in the status of a business concern or concerns.

6. Pro forma Cash Flow :

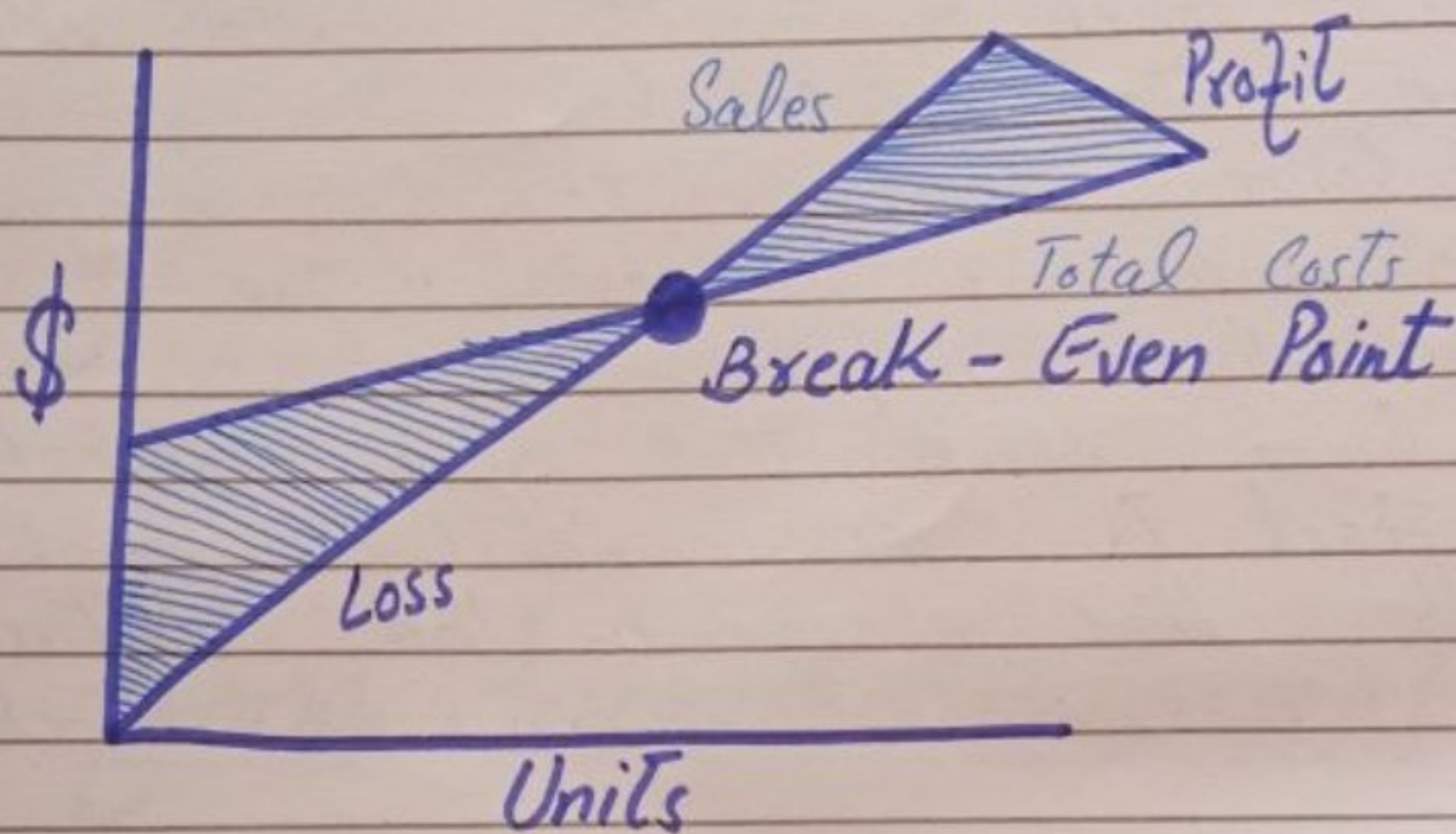
- ⇒ Pro forma cash flow is the estimated amount of cash inflows and outflows expected in one or more future periods.
- ⇒ If excess cash is projected by the pro forma document, this information can also be used to plan the most appropriate investment strategy for the cash.

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Break-Even:

=> Reach a point in a business venture when the profits are equal to the costs.



Long Question

- Define pro-forma? Pro forma Sources & applications of funds?

• Pro-forma:

=> Pro forma is a Latin term that means "for the sake of form" or "as a matter of form."

- ⇒ Business use proforma statements for decision-making in planning and control, and for external reporting to owners, investors, and creditors.
- ⇒ Often used to describe a document.

① Source :

- ⇒ A place, person, or thing from which something originates or can be obtained.

① Proforma Sources & Application of funds :

- ⇒ To identify the types of financing available.
- ⇒ To discuss small business administrative (SBA) loans.
- ⇒ To understand the role of private placement as a source of funds.
- ⇒ To understand the aspects of research and development limited partnerships.
- ⇒ To understand the role of commercial banks in financing new ventures, the types of loans available, and bank lending decisions.
- ⇒ To discuss government grants, particularly

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small business innovation research grants.

⇒ Short-term money is used to provide working capital.

⇒ The investor shares in the profits of the venture.

⇒ Usually a combination of debt and equity financing is used.

⇒ Sometimes little-used assets can be sold or leased.

⇒ Another method is by collecting accounts receivable more quickly.

⇒ Alternative sources should be evaluated by:

- Length of time the funds are available.
- Costs involved.
- amount of control lost.

⑦ Sources:

⇒ Operations.

⇒ New investments.

⇒ Long-term borrowing.

⇒ Sale of assets.

① Uses / Application:

- ⇒ Increase Assets.
- ⇒ Retire long-term liabilities.
- ⇒ Pay dividends.
- ⇒ Reduce Owner or stockholder's equity.

① Example:

Sources of funds	
Mortgage loan	150,000
Term loan	75,000
Personal funds	50,000
Net Income from operations	8,750
<u>Add Depreciation</u>	<u>39,600</u>
Total funds provided	323,350

“Business is a Combination of War & Sport.”

“If you don't drive your business, you will be driven out of Business.”