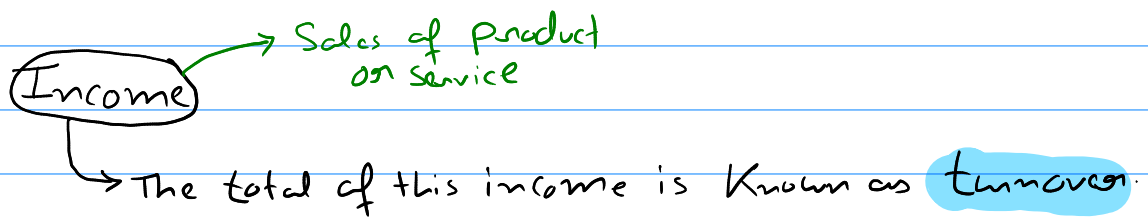


How do you create a financial Model

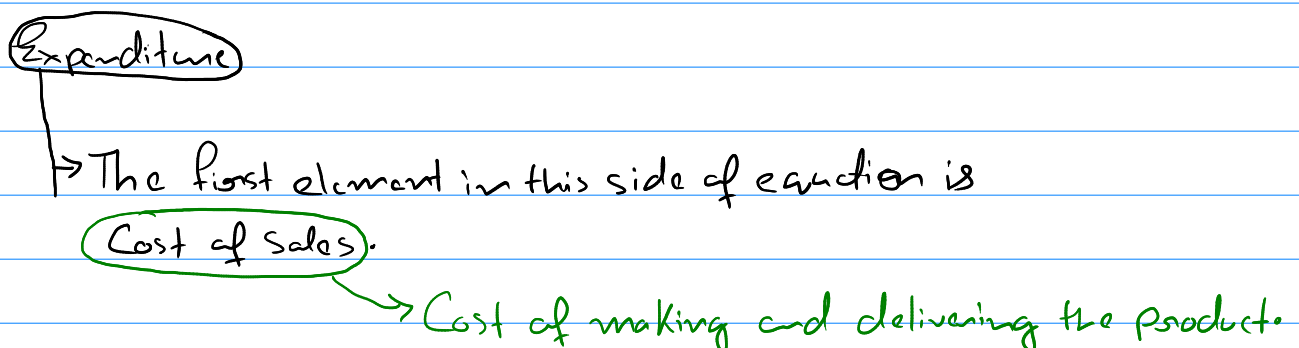
- ⇒ You will need a financial plan for your business even if you do not need to borrow money or sell equity in your company.
- ⇒ The process of creating a financial model is really about planning and understanding the detail of how your business will work and operate.
- ⇒ Without a financial model you cannot know:
 - What you can afford to spend.
 - What you will need to sell your product for.
 - How much you can pay yourself and your team.

★ The basic structure

- ⇒ A financial model consists of a balance between income and expenditure.



- ⇒ Complexity of this side of equation comes in
 - Forecasting what your future sales are likely to be.
 - What price you can charge.



$$(\text{turnover}) - (\text{Cost of Sales}) = \text{Gross margin}$$

⇒ A high gross margin is much more likely to lead to a profitable business, providing you can sell enough of them at that price.

⇒ The second aspect of this side of the equation is the operating expenses of the business.

- Administration
- Sales & Marketing
- R&D
- Capital expense, Premises cost, 3rd party service.

$$(\text{turnover}) - (\text{Cost of Sales}) - (\text{Operating expenses}) = \text{Profit / Loss}$$

EBIT ⇒ Earning before income tax

⇒ When all these values are presented in a way that shows your income and expenses, resulting in a profit or loss, the resulting table is known as profit & loss statement.

A P&L account like this shows you how profitable the business is going to be, but it assumes that the revenue and expenditure occur at the same time, in other words it doesn't tell you what your cash flow is going to be.

→ To do that financial model also includes a cash flow statement

⇒ Balance sheet are also a common financial tool for reporting and examining a companies health.

→ Provides a snapshot of the companies financial position at a specific point in time.

★ Business planning tools

(A common Spreadsheet is more than enough for building your financial model)

★ Building the model

⇒ This section will take you through the process of building a financial model in a logical and step by step process.