

How to Develop Financial Projections

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The Business Plan

The Business Plan establishes credibility:

- ▶ of the business idea
- ▶ of the entrepreneurs

Demonstrates the following:

- ▶ Business Overview
- ▶ Market Analysis
- ▶ Team
- ▶ Financial Projection

The Financial Projections

The Financial Projections must:

- ▶ Be Realistic/Credible
- ▶ Be Consistent with the business plan assumptions
- ▶ Present relevant information
- ▶ Show investors growth potential
- ▶ Show Company's development and efficiencies
- ▶ Be Adaptable (high, moderate and low growth)

The Four Main Financial Statements

1. Balance Sheet

- ▶ Shows the financial position at a certain point in time. It includes:
 - **Assets:** What the company owns and has title to
 - **Liabilities:** Obligations of the company
 - **Stockholders' Equity:** The “book value” of a company. Shows the net amount invested in a company
 - **Assets = Liabilities + Equity**
 - **Helps analyze the Company's liquidity and solvency!**

The Four Main Financial Statements

2. Income Statement

- ▶ Revenues
- ▶ Expenses
 - ▶ Cost of Goods Sold/Gross Profit
 - ▶ Selling, General and Administrative
 - ▶ Income taxes
 - ▶ Other income and expenses

3. Statement of Stockholders' Equity

- ▶ Shows changes in stockholder's equity during the year
- ▶ Shows distributions made by the company
- ▶ Shows capital contributions made to the company

The Four Main Financial Statements

4. Statement of Cash Flows

- ▶ Reports cash receipts and disbursements
- ▶ Presented in three categories:
 - Operating Activities
 - Investing Activities
 - Financing Activities
- ▶ Reconciles cash at beginning of the year to cash at the end of the year
- ▶ Provides information for the burn rate
 - Equal to the cash used in operations plus the cash used in investing
- ▶ Can be used to project when investors can get return on investment

Understanding the Footnotes

Roles of Footnotes/Assumptions in the Projected Financial Statements

- ▶ Explains the major assumptions used in developing the Projected Financial Statements
- ▶ Provides valuable insight and clarification into the amounts contained on the financial statements
- ▶ Provides useful information related to the Company's accounting policies
- ▶ Tells a narrative of the Company's story

Other Items to Include

- ▶ Ratios that are relevant to your Company
- ▶ Average selling price per unit
- ▶ Average cost per unit
- ▶ Potential customers and the anticipated revenue per customer
- ▶ Breakeven analysis
- ▶ Staffing requirements
- ▶ Technology requirements
- ▶ Financing scenarios
- ▶ Return to investors

Thank you!

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