**Financial Plan**

The financial plan consists of a 12‐month profit and loss projection, a four‐year profit and loss projection (optional), a cash‐flow projection, a projected balance sheet, and a break‐even calculation. Together they constitute a reasonable estimate of your companyʹs financial future. More important, the process of thinking through the financial plan will improve your insight into the inner financial workings of your company.

**12-Month Profit and Loss Projection**

Many business owners think of the [12‐month profit and loss projection as](http://www.score.org/sites/default/files/Profit_and_Loss_Projection_1yr_0.xls) the centerpiece of their plan. This is where you put it all together in numbers and get an idea of what it will take to make a profit and be successful.

Your sales projections will come from a sales forecast in which you forecast sales, cost of goods sold, expenses, and profit month‐by‐month for one year.

Profit projections should be accompanied by a narrative explaining the major assumptions used to estimate company income and expenses.

Research Notes: Keep careful notes on your research and assumptions, so that you can explain them later if necessary, and also so that you can go back to your sources when it’s time to revise your plan.

**Three-Year Profit Projection (Optional)**

The 12‐month projection is the heart of your financial plan. [The Three-Year Profit projection](http://www.score.org/sites/default/files/Profit_Projection_3Yr_0.xls) is for those who want to carry their forecasts beyond the first year.

Of course, keep notes of your key assumptions, especially about things that you expect will change dramatically after the first year.

**Projected Cash Flow**

If the profit projection is the heart of your business plan, cash flow is the blood. Businesses fail because they cannot pay their bills. Every part of your business plan is important, but none of it means a thing if you run out of cash.

The point of this worksheet is to plan how much you need before startup, for preliminary expenses, operating expenses, and reserves. You should keep updating it and using it afterward. It will enable you to foresee shortages in time to do something about them—perhaps cut expenses, or perhaps negotiate a loan. But foremost, you shouldn’t be taken by surprise.

There is no great trick to preparing it: The [cash‐flow projection is](http://www.score.org/sites/default/files/12_Month_Cash_Flow_0.xls) just a forward look at your checking account.

For each item, determine when you actually expect to receive cash (for sales) or when you will actually have to write a check (for expense items).

You should track essential operating data, which is not necessarily part of cash flow but allows you to track items that have a heavy impact on cash flow, such as sales and inventory purchases.

You should also track cash outlays prior to opening in a pre‐startup column. You should have already researched those for your startup expenses plan.

Your cash flow will show you whether your working capital is adequate. Clearly, if your projected cash balance ever goes negative, you will need more start‐up capital. This plan will also predict just when and how much you will need to borrow.

Explain your major assumptions, especially those that make the cash flow differ from the *Profit and Loss Projection*. For example, if you make a sale in month one, when do you actually collect the cash? When you buy inventory or materials, do you pay in advance, upon delivery, or much later? How will this affect cash flow?

Are some expenses payable in advance? When?

Are there irregular expenses, such as quarterly tax payments, maintenance and repairs, or seasonal inventory buildup, that should be budgeted?

Loan payments, equipment purchases, and ownerʹs draws usually do not show on profit and loss statements but definitely do take cash out. Be sure to include them.

And of course, depreciation does not appear in the cash flow at all because you never write a check for it.

**Break-Even Analysis**

A [break‐even analysis predicts](http://www.score.org/sites/default/files/Breakeven_Analysis_1.xls) the sales volume, at a given price, required to recover total costs. In other words, it’s the sales level that is the dividing line between operating at a loss and operating at a profit.

Expressed as a formula, break‐even is: