

FINANCIAL TEMPLATES

HISTORICAL FINANCIAL ANALYSIS

This analysis consists of three years historical income statements and balance sheets. All data is entered from financial statements provided by the client – preferably accountant prepared statements or tax returns. Additionally, space is provided for an analysis of year-to-date information. Fields highlighted on the Income Statement are used on accompanying spreadsheets, so changing these fields will result in inaccurate calculations on other sheets. Changing the account name and corresponding entry on all other Expense categories may be necessary in order to properly reflect client financial statements.

At the bottom of the historical income statements is a *Debt Service Analysis*. Annual principal and interest payments for both the business and for the owner's personally must be entered from data gathered from the client. Additionally, other personal income must also be entered. If Rent is not paid to the owner's personally, this field can be zeroed out.

From the income statement and balance sheet data, a historical *Cash Flow Analysis* is performed. Here, changes in Balance Sheet accounts are analyzed to determine just where company cash was used. Efficiency in operations is evidenced by changes in Accounts Receivable, Inventory, Accounts Payable and Accruals. From there, non-operating uses and sources of cash are analyzed.

Financial Ratios are calculated from the data provided. Space is available for manual input of industry data from RMA or other sources.

A *Permanent Working Capital Analysis* identifies the length of the company's operating cycle and level of working capital necessary to maintain operations.

The *Working Capital Cycle* is shown graphically to help clients understand how long it takes cash invested in inventory to become cash again.

Break Even Analysis re-organizes the income statement into *variable* and *fixed* expenses. Variable expenses are those that are caused by sales. It assumes that Cost of Goods Sold and

Credit Card Service are variable expenses and it leaves space for additional expenses to be re-classified as variable. Those amounts added to variable expenses must then be subtracted at the bottom of the sheet in “Less: costs moved to variable.” While Break Even Analysis can provide much more information, this sheet identifies what the break-even level of sales is for this company based on the prior year’s cost structure. It also identifies the number of units necessary to break even, if you manually input a per-unit price. Additionally, it tells you the level of sales needed for each \$1.00 increase in fixed costs and sales needed to achieve a target profit.

Finally, *Financial Gap Analysis* illustrates the impact of sales growth on the company’s Balance Sheet. Thinking ahead to the next year, enter goals for sales, gross margin, operating/SGA expenses, and owner distribution/salary. If the company operates at the same level of efficiency as in the prior year, Financial Gap Analysis will identify the additional financing needed to grow – the “Financial Gap.” If, in fact, the company can support this level of growth, a surplus would be identified here in brackets. This analysis assumes no additional investment in fixed assets and classifies all new debt as short-term. Days Cash also calculates by taking the Financial Gap (Surplus) and adding it to the Cash Asset to identify the number of Days Cash the company will have on hand. “Financial Gap – Same Efficiency” identifies the company’s financing need if management does not make any changes to their level of efficiency – specifically A/R collections, Inventory turns, A/P days, and Accrual Days. “Financial Gap – Improved Efficiency” takes the data provided in the prior worksheet and allows space to enter goals to improve these areas. This way, your client can see that internal changes may reduce or eliminate their need for additional financing.

FINANCIAL PROJECTIONS

The *Sources and Uses* statement collects data on financing needed, equity invested and assets purchased. Depreciation and Amortization on new assets is calculated based on Straight-Line IRS tables. Enter the month that each should begin. Existing Depreciation and Amortization can be estimated by entering the number on this sheet, as well. *Note the instructions in red – loan, equity, and asset amounts must be transferred manually to the cash flow statement.* Enter the loan, equity and asset amounts no earlier than the month prior to the month of the first payment. New Depreciation and Amortization will calculate based on the entries for Building and Equipment (Depreciation) and Start-Up Costs and Goodwill (Amortization) and must be assigned a month to start. Enter “1” for January, “2” for February, etc.

Loan Amortizations 1, 2, and 3 pull the loan amounts automatically from the Sources and Uses statement. Enter the loan description, interest rate, term of the loan, and the **month of first payment** for each loan (“1” for January, “2” for February, etc.). Principal and interest, as well as the declining loan balance and current maturities of long-term debt and automatically entered on the appropriate sheets in the appropriate month.

The ***Existing Loan Amortizations*** sheet allows you to enter up to five existing loans that the company has. In addition to the loan interest rate, you will need the loan balance and number of months remaining as of the end of the last fiscal year. You must also specify if the loan has Interest Only payments by entering Yes (Y) or No (N). You can enter up to eight (8) loans. Do not enter loans that are going to be refinanced.

The ***Existing Loans to be Refinanced*** sheet is used if the purpose of financing is to refinance existing debt. If so, on the Sources and Uses sheet, enter the dollar amount to be refinanced under Uses. Then, on this sheet, enter each loan to be refinanced with the loan interest rate, and loan balance and number of months remaining as of the end of the last fiscal year. The loan balance entered should be the starting loan balance at the beginning of the current year. Enter Y or N for Interest Only. Enter the number of the month in which the refinancing will take place. This will be the month **AFTER** you would make the last payment on the existing loan. For the loan that will be taking its place, the month payments start will be the same as the Refinance Month. (Example: Existing loan paid off in February and assuming the February payment will still be made means you enter March (3) as the Refinance Month. You will also enter March (3) on the Loan Amortization tab for the new loan.)

DO NOT follow the instructions on the Sources & Uses statement for entering the total loan amounts on the cash flow statement. Only NEW debt and assets should be entered on the cash flow statement, not the refinanced amount.

The ***Existing Lines, Notes CC Amorts*** sheet is used to develop the amortization schedules for short-term Lines of Credit, Notes Payable, and Credit Cards Payable. Enter the information requested and specify if Interest Only.

The ***Debt Schedule*** pulls the existing loan amortizations together in one simple form that can be presented in a loan package.

There are sheets available for three years of monthly projections for: Sales, Income Statement, Cash Flow Statement and Balance Sheet.

On the ***Sales Projections*** sheet, data is entered differently depending on the template sheet being used.

If you are entering sales projections as a percentage of total sales each month, start by entering a target sales goal for the first year. Then discuss with your client their sales structure and determine what percentage of total sales is typical for each month. This will add up to 100%. Enter each individual product (up to 10) and determine what percentage of total sales each product provides. Also enter the expected Cost of Goods Sold for each product. Entering a price-per-unit for each product will identify the number of this product necessary to achieve the level

of sales in each month. Sales Projections sheets for the next two years carry forward the product names, percentage of sales per product, and percentage of sales per month; however, they can also be changed if the company expects things to change in subsequent years. A new sales goal and Cost of Goods Sold percentages will need to be input in year's two and three.

OR, If you are entering sales projections on a per-unit basis, enter the per-unit (or average sale) price in the January column of the "Price Per Unit" row. Then, enter the expected units sold each month in the "# Units Sold" row. Also enter the expected Cost of Goods Sold for each product.

Sales and Cost of Goods Sold data is transferred from the Sales Projection sheet to the ***Income Statement*** for each year. Expenses are entered by entering the monthly amount in January. It will copy this amount across all months and total it at the end. If you want to make changes in each individual month and over-ride the formula, you can do so. Amortization, Depreciation, and Interest Expense are calculated automatically based on entries on prior sheets. Merchant Credit Card Fees are calculated in Column P by entering the percentage of sales typically placed on credit cards and the percentage fee charged to your client. Also on the Income Statement form, there is a space at the top of the sheet to enter Balance Sheet assumptions for Days Receivable and Days Payable.

While entering projected income and expenses on the Income Statement sheet for the first year, you will also want to enter these numbers on the ***Proj vs. Actual*** sheet for the first year. Enter all projected amount in the blue fields. If you review the client's financial statements on a monthly basis, you can enter actual data on the first year Income Statement sheet and then compare each month to the projected numbers.

The ***Cash Flow Statement*** takes into account data entered on all prior sheets and records the monthly change in cash. The spaces in blue allow for manual entries to record changes your client anticipates in the various asset, liability and equity accounts. There is an "Out of Balance" line in gray below Ending Cash to ensure that your Ending Cash Balance on the Cash Flow Statement matches your Cash balance on the Balance Sheet each month.

Monthly ***Balance Sheets*** are generated by data entered in all prior forms. However, you must manually enter the prior year's Balance Sheet in the first column (in the blue spaces) for it to calculate correctly. **Additionally, you must work with your client to determine expected purchases of inventory to be made each month in order to calculate the Inventory balance each month. Purchases are entered in the blue fields across the top of the Balance Sheet. Another method to enter inventory purchases is to create a formula that uses the next month COGS as purchases for the current month. Or if your client purchases inventory two or three months out, use the COGS for the appropriate month. You should be able to copy and paste the formula until you get to December and then make the necessary formula adjustment.** A double-check to make sure your Cash Flow Statement and Balance Sheets are accurate would be to compare the Ending Cash on the Cash Flow Statement to the

Cash Asset on the Balance Sheet for each month – they should match. The beginning Balance Sheet for year’s two and three is automatically carried forward from the prior year.

If you are using the projections template for financing and part of the financing will be used to purchase inventory or provide working capital, follow these instructions to enter the beginning balance sheet on the First Year BS tab:

- Enter all liabilities, equity, goodwill, fixed assets, and other assets except inventory and working capital in the “Beginning” column on the First Year BS. This will cause the Beginning Balance Sheet to be out of balance which is ok.
- Still on the First Year BS tab, enter the Inventory purchased in the “Est. Purchases” row in the month it will be purchased. This is assumed to be the month before sales will be generated. Example: The business plans to begin making sales in March so Inventory would be purchased in February.
- Hide the “Beginning” column and any other monthly balance sheet columns prior to the actual beginning balance sheet. Using the example above, you would hide “Beginning” and “January.”

Financial Ratios are calculated based on the data entered. Industry numbers can be entered for comparison purposes.

The **Break Even** sales level is determined for each year. Expenses classified as variable can be moved to the places labeled “Other” and must then be subtracted from the fixed expense total in the field marked “Less: Costs moved to variable.” A per-unit price can be entered to calculate break-even unit, and a profit goal can be entered to determine the level of sales necessary to achieve this profit. It also calculates how much sales must increase when fixed costs increase.

To unlock each sheet, you must enter the password (“nemnsbdc”) under the Review tab > Unprotect Sheet. However, you are strongly encourage you to enter as much data as possible with the sheets locked. If you must over-ride existing formulas, review the formula to determine where the data is coming from and where data entered in this cell may be pulled to so you can ensure the sheets continue to work properly.

These templates were created by Jennifer Pontinen of the UMD Center for Economic Development, with assistance from Jenny Herman and Richard Braun. They are protected under the Creative Commons License and may not be distributed for profit.

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