

Financial Gap Calculation Worksheet					
	Assets	% of Sales*	Liabilities		% of Sales*
ADD GOING DOWN ↓	Cash		Notes Payable		Financial Gap
↻ +	Accounts Receivable		Accounts Payable		↻ -
↻ +	Inventory		Accruals		↻ -
=	Total Current Assets		Total Current Liabilities		=
↻ +	Equipment		Long-Term Liabilities		↻ -
↻ +	Land/Building (fixed)		Total Liabilities		=
=	Total Fixed Assets		Net Worth		↻ -
=	Total Assets	=	Total Liabilities & Net Worth		
					↑

Financial Gap Illustrated

The Financial Gap forecasting section provides a tool to understand how a business' growth (as measured by its Sales on the Income Statement), can affect its need for additional assets (which are measured and paid for on the Balance Sheet). The process involves first identifying which assets and/or liabilities vary with sales. Variable Assets usually include cash, A/R, inventory, and equipment. Variable Liabilities are usually accruals and A/P. These can vary with different companies.

Once we've identified the company's variable assets and liabilities, we then develop a *percentage of sales* relationship between the dollar amounts from the balance sheet of each variable asset and liability to the sales that were produced during the year. These *percentage of sales* relationships will be used to forecast what the balance sheet may look like in the future, based on different levels of anticipated sales.

Forecasting the balance sheet requires four basic steps:

1. Determining the "New Net Worth" number
2. Forecasting the dollars for the variable assets and variable liabilities
3. Completing the rest of the balance sheet numbers and
4. Calculating the potential Financial Gap

1. New Net Worth

Begin by determining the existing net worth number from the historic balance sheet . In the future, the only thing that will add to the existing net worth will be the company's profit. Multiply the projected sales times the projected net profit percentage to obtain the projected profit dollars. Add the projected profit dollars to the existing net worth to obtain the new net worth.

2. Forecasting dollars of variable assets and variable liabilities

Multiply the percentage of sales number for each variable asset or liability times the projected total sales to obtain the forecasted balance sheet number.

3. The illustration below shows the process of completing the balance sheet. Start at the top of the Asset side of the balance sheet, and add numbers to one another until you arrive at the Total Assets number on the bottom. Since the balance sheet has to balance, the number in Total Assets is then repeated at the bottom right of the balance sheet in Total Liabilities and Net Worth. From there, work **up** the left side of the balance sheet, subtracting numbers from one another, until you arrive at Financial Gap (Notes Payable) at the top.

4. Calculating the potential Financial Gap

By now, you have determined what the company's projected Total Current Liabilities number will be, which is always the sum of all the numbers above it. To determine the Financial Gap figure, subtract the accruals and accounts payable numbers from Total Current Liabilities