2. Identify

~ Job titles and skills
~ Pay scale
~ Sources of employees
~ Processes to recruit, screen, and hire
~ New employee training
~ Cost of training
~ Upgrade training

3. Describe how and where employees will be recruited, screened, and hired

4. Outline plans for training employees: new, upgrades, costs involved

9. OVERALL SCHEDULE

A schedule that shows the timing and interrelationship of the major events necessary to launch the venture and realize its objectives is an essential part of a business plan. In addition to being a planning aid and showing deadlines critical to a venture's success, a well-prepared schedule can be an extremely effective sales tool in raising money from potential investors. Properly prepared and realistic, it demonstrates the ability of the management team to plan for venture growth in a way that recognizes obstacles and minimizes investor risk.

Prepare a month-by-month schedule that shows the timing of such activities as: product development; market planning; sales programs; production and operations. Sufficient detail should be included to show the timing and responsibility of the primary tasks required to accomplish an activity.

Show, on the schedule, the deadlines or milestones critical to the venture's success. This should include events such as:

- Incorporation of the venture
- Completion of design and development

- Completion of prototypes (a key date; its achievement is a tangible measure of the company's ability to perform)
- Product display at trade shows
- Ordering of materials in production quantities
- Start of production or operation (another key date because it is related to the production of income)
- First orders received
- First sales and deliveries (a date of maximum interest because it relates directly to the company's credibility and need for capital)
- Payment of first accounts receivable (cash in)

The schedule should also show the following and their relation to the development of the business.

- Number of management personnel
- Number of production and operations personnel
- Additions to plant or equipment

Describe the activities most likely to cause a schedule slippage, and what steps you would take to correct such a slippage. Discuss the impact of schedule slippage on the venture's operation, especially its potential viability and capital needs. (*Keep in mind that the time to do things tends to be under-estimated, even more than financing requirements. So be realistic about your schedule).*

10. COMMUNITY BENEFITS

The proposed venture should be an instrument of community and human development as well as economic development, and it should be responsive to the expressed desires of the community.

Describe and discuss the potential economic benefits to members of the community that could result from the formation of the proposed venture.

Among the benefits that may merit discussion are:

A. Economic

- Number of jobs generated in each of the first three years of the venture
- Number and kind of new employment opportunities for previously unemployed or underemployed individuals
- Number of skilled and higher paying jobs
- Ownership and control of venture assets by community residents
- Purchase of goods and services from local suppliers

B. Human Development

- New technical skills development and associated career opportunities for community residents.
- Management development and training
- Employment of unique skills within the community that are now unused or underused

C. Community Development

- Development of community's physical assets
- Provision of needed, but not supplied, services or products to community
- Improvements in the living environment
- Community support, participation and pride in the venture
- Development of community-owned economic structure and decreased absentee business ownership

Describe any compromises or time lags in venture profitability that may result from trying to achieve some or all of the kinds of benefits cited above. Any such compromise or lags in profitability should be justified in the context of all the benefits achieved and the role of the venture in a total, planned program of economic, human and community development.

11. <u>THE FINANCIAL PLAN</u>

The financial plan is basic to the evaluation of an investment opportunity and should represent the entrepreneur's best estimates of future operations. Its purpose is to indicate the venture's potential and the timetable for financial viability. It can also serve as an operation plan for the financial management of the venture.

In developing the financial plans, five basic exhibits must be prepared:

- *a. Sources and Uses Statement*
- *b. Profit and loss forecasts for three years*
- *c. Cash flow projections for three years*
- *d. Pro forma balance sheets for three years*
- *e. Breakeven chart*

A breakeven chart should be presented that shows the level of first-year production that is required to cover <u>all</u> operating costs.

A. Sources and Uses Statement

Be sure assumptions about loan terms and equity requirements are correct. Written estimates on assets contributed or to be purchased must support the Sources and Uses Statement. For purposes of estimating, use a straight line depreciation method on equipment and vehicles. An estimate of three to six months available cash for working capital is realistic. The amount of "Sources" must equal the amount of "Uses."
If letters of credit or commitments from bankers or vendors have been received, they should be attached.

Sources and Uses Statement example is provided in Exhibit II.

B. Profit And Loss Forecast

1) Discussion of Assumptions

Because of the importance of profit and loss projections as an indication of the potential financial feasibility of any new venture to potential investors, it is extremely important that assumptions made in its preparation be fully explained and documented. If these statements are to be useful they must represent management's realistic assessment and best estimates of probable operation results. Sales or operational cost projections that are either too conservative or too optimistic have little value as aids to policy formulation and decision-making. <u>Thinking about assumptions before startup is useful for identifying issues that require consideration before they turn into major problems.</u>

Reference the market research in section **Estimated Market Share and Sales, page 22** for revenue estimates.

Once the sales forecasts are in hand, production (or operations for a service business) should be budgeted. There must be a determination of the level of production or operation that is required to meet the sales forecasts and fulfill inventory requirements. The material, labor, service and equipment requirements must be developed and translated into cost data. A separation of the fixed and variable elements of these costs is desirable, and the effect of sales volume on inventory, equipment acquisitions and manufacturing costs should be taken into account. The operation plan is the source for these cost data. Earnings projections should be prepared monthly for the first two years of operation and quarterly for the third year.

Cost of Goods Sold is deducted from gross revenue to obtain a gross profit margin. This category should include all costs directly related to creating the revenue. For example, a manufacturer will include direct labor (including benefits), materials, and manufacturing overhead. Service companies will include the costs of direct labor (including benefits) and materials or supplies used to perform the service. Retailers will include their beginning inventory, purchases, and ending inventory to calculate the costs of goods used during the period.

Operating Expenses are indirect expenses that are incurred even if revenue is not gained. Sales expense includes the costs of selling and distribution, storage, discounts, advertising and promotion. General and Administrative expense includes management salaries, clerical costs, and legal and accounting expenses, rent, utilities, management fringe benefits, telephone, etc.

The pro forma profit and loss statement will be more meaningful if all costs are shown as a proportion of sales. It will allow figures to be compared with industry standards and enable comparisons of subsequent years. Dun and Bradstreet Industry Norms and Key Business Ratios and Robert Morris Annual Statement Studies are good sources of industry benchmarks.

Projected cash flow should include assumptions made on timing of collection of receivables, trade discounts given, terms of payments to vendors, planned salary and wage increases, anticipated increases in other operating expenses, seasonal characteristics of the business as it affects inventory requirements, and capital equipment purchases. It is especially important to anticipate quarterly and annual tax payments since these require holding funds in reserve until needed. As with the sales and income projections it is also important that these assumptions represent management's best estimates.

The Cash Budget worksheet (Exhibit IV) describes the revenue and expense categories of profit and loss as well as cash flow projections. It must be comprehensive and thorough.

In addition to serving as a basis for planning, the projected income statements should be used for operation control functions. Through comparisons with actual operation sales and profit information, the operating status of the venture can be determined relative to the objectives that have been set in the plan. This type of analysis can be used by management to indicate critical factors which need attention and can indicate the need for a reassessment of the underlying assumptions used to develop the projections. See Profit and Loss Worksheet Exhibit III

2) Risks And Sensitivity

Once the most likely statements have been prepared, discuss the major risks that could prevent those goals from being attained, and the sensitivity of profits to these risks.

Outline some of the risks that might be encountered in the firm itself, the industry, and the environment. This could include things as specific as the impact of a 20% reduction in sales projections on the learning curve requirements of management and non-management employees, and how this will affect the level of productivity over time.

C. Pro Forma Cash Flow Analysis

1) Discussion of Assumptions

For a new venture the cash flow forecast can be more important than the forecasts of profits because it details the amount and timing of expected cash inflows and outflows. Usually the level of profits particularly during the startup years of a venture, will not match the outflows on a short-term basis. The cash flow forecast will indicate these conditions and enable management to plan cash needs.

Given a level of projected sales and capital expenditures over a specific period, the cash forecast will highlight the need for additional financing and indicate peak requirements for working capital. Management must decide how this additional financing is to be obtained, on what terms, and how it is to be repaid. This information becomes part of the final cash flow forecast.

If the venture is in a seasonal or cyclical industry, or is in an industry in which suppliers require a new firm to pay cash, or if inventory build-up occurs before the product can be sold for revenues, this cash forecast is crucial to the continuing solvency of the business. A detailed cash flow forecast which is understood and used by management can enable them to direct their attention to operation problems without distractions caused by periodic crises which should have been anticipated. Cash flow projections should be made for each month of the first year of operation and quarterly for the second and third years.
See Cash Budget Worksheet Exhibit IV.
See Cash Flow Worksheet Exhibit V.

2) Cash Flow Sensitivity

Once the cash flow has been completed, discuss the implications for funds needs that possible changes in some of the crucial assumptions would have. This is designed to enable the entrepreneurial team to test the sensitivity of the cash budget to a variety of assumptions about business factors and to view a wider range of possible outcomes. Investors are vitally interested in this because it helps them estimate the possibility that you will need more cash sooner than planned.

D. Pro Forma Balance Sheets

The balance sheets are used to detail the assets required to support the projected level of operations indicated in the income projections and, through liabilities and equity, how these assets are to be financed. Every accounting transaction can be recorded in terms of its effect on the balance sheet. Investors look to the projected balance sheets to determine debt to equity ratios, working capital current ratios, inventory turnover, etc.

In forecasting balance sheets, it will be necessary to project inventory levels, capital expenditures and incurrence of debt in addition to the other forecasting data described above. Pro forma balance sheets should be prepared at startup, quarterly for the first year, and at the end of each of the first three years of operation.

See Balance Sheet Worksheet Exhibit VI

1) Discussion Of Assumptions

The Pro Forma Balance Sheet must be consistent with the Sources and Uses Statement as well as descriptions of management participation and ownership.

E. Break-even Chart

A break-even chart is a way of determining the level of sales of production at which sales will cover costs. This includes those costs that vary with production level (manufacturing labor, materials, sales costs) and those that do not change with production level (rent, interest charges, executive salaries, etc..) The sales level that just covers all costs is the minimum sales objective for the venture. It is very useful for the investor and the management to know what the break-even point is and whether it will be easy or difficult to attain. You should prepare a break-even chart and discuss how the break-even point might be lowered in case you start to fall short of your sales projections. You should also discuss the effect of lower production quantities on the cost of production.

See Exhibit VII for Break-Even Analysis

12. **PROPOSED FINANCING**

This section is to be devoted to a discussion of the current and proposed capital structure of the venture and to a summary of management's conclusions about the timing and probable sources of funds to meet peak cash requirements.
Structure so that the following issues are covered:

- Identification of the initial equity investors: name ___________________
  Amount invested __________________, Shares received _____________,
  At what cost ____________________
- Initial long-term debt: Interest rate ______________, repayment terms ___________,
  and sources __________________.
- Description of the type of funding requested ________________________________
- Description of how the capital funds will be allocated to the various business operations. Approximately how will the funds be used: working capital __________,
  Equipment purchases _______________, debt repayment (if any) ________________,
  cover projected operating losses, etc. _______________________
- Based on the cash flow forecast, management's conclusions about the timing of peak cash needs and how they plan to meet these requirements. For example, return to original sources for additional funding, secure a line of credit with the bank, take on additional long term debt, attract new equity investors, factor receivables.

EXHIBIT I
SAMPLE RESUME

THOMAS O'HARE
1213 NE 123 Ave.
Sub City, Washington 98695
(360) 427-2525 (h)
(360) 427-1900 (w) (360) 427-1902 (fax)
e-mail: ohare@server.com

Work Experience:

1996 – Present	(My Company), owner and general manager.
1985 – 1996	Sharp Cutlery Company; Regional Manager; Portland, OR. Directed company operations in a five-state area with a staff of fifteen administrative and warehouse personnel and ten commissioned sales people. Controlled annual budget in excess of $1,000,000.
1984 – 1985	Pots and Pans, Inc.; Sales Manager; Portland, OR. Supervised five sales people and managed a budget of $280,000.
1982 – 1984	Pots and Pans, Inc.; Salesman in Wholesale Division; Portland, OR. Company sales leader in 1983 and 1984.
1978 – 1982	Uneed Insurance Agency, Salesman for casualty insurance.

Education:

1978	B.A., Good for U., Casino, Nevada
1987 – 1998	Various business management seminars and classes.

Other experience:

While employed as a salesman with Pots and Pans, Inc., I became interested in cooking and ultimately began working evenings preparing gourmet meals in people's homes for them and their guests. This activity provided invaluable knowledge about different types of cookware, a primary factor in the success of the (My Company).

EXHIBIT II
SOURCES AND USES STATEMENT (example)

SOURCES OF FUNDS

The total project will take $60,000 to complete.

Sources:

$17,500	My Company
$42,500	Lender
$60,000	

USE OF FUNDS

The $17,500 contributed by (My Company) will be used as follows:

$2,000	Legal Fees
$1,500	Licenses and Permits
$1,500	Leasing Costs
$12,500	Inventory
$17,500	

The requested $42,500 will meet the following needs:

$12,000	To incorporate the adjoining 2,400 square foot store front into the presently occupied space (a breakdown with estimated costs is included as Appendix B). This will approximately double our sales area and allow expansion of office and storage space.
$4,000	For additional display fixtures (Appendix B).
$4,000	To equip and install a demonstration area (Appendix B).
$7,500	For increased inventory.
$15,000	For working capital to carry accounts receivable.
$42,500	Total.

With expansion, there will be sufficient space for customers to examine the merchandise and talk without being jostled by others trying to get through narrow aisles. There will be some new merchandise to display, but for the most part, we will merely spread out what is already in the store.

We have been aware of the need for a demonstration area for some time, but could not possibly work it in without sacrificing some of the already restricted open areas. There will be scheduled demonstrations by staff members two to four times a day depending on the day of the week. Any time there is no demonstration in progress, customers will be allowed to use the facility to try the products themselves.

USE OF FUNDS (Cont'd)

The amount requested for additional inventory will enable us to add to our line of accessories and provide for a modest increase in lines already handled. Although we normally receive our merchandise within a week to ten days after order, there have been delays in delivery from time to time and customers have had to wait for their purchases. The additional inventory will reduce that possibility in the future.

A complete set of our product represents a major purchase for many of our customers. Therefore, we offer limited credit terms to those who have a good credit rating. The standard agreement is for 1/3 down, 1/3 in 30 days and the balance in 60 days. Our experience has been excellent with bad debts amounting to three tenths of one percent. Sales are increasing rapidly now but the rate of growth is projected to slow after about a year. The $15,000 requested to carry receivables together with retained earnings should be sufficient to handle the increased credit business.

Immediately upon completion of the expansion, one person will be added to the sales staff and within a year two more sales people will be hired as well as a half-time person for office work. Therefore, this loan will benefit the community, as well as the business, by creating 3.5 new jobs.

BALANCE SHEET

The Abra Company
Sub City, Washington

Assets		**02/28/1988**		**02/28/1989**		**05/31/1989**
Current Assets:						
Cash	$	6,314	$	5,622	$	8,261
Accounts Receivable	$	2,127	$	4,651	$	7,133
Inventory	$	5,118	$	6,404	$	13,476
Prepaid Expenses	$	433	$	624	$	519
Total Current Assets:	$	13,992	$	17,301	$	29,389
Non-current Assets:						
Leasehold Improvements	$	12,439	$	14,718	$	14,718
Furniture and Fixtures	$	8,790	$	9,355	$	9,355
Equipment	$	4,612	$	4,818	$	5,306
	$	25,841	$	28,891	$	29,379
Less Accumulated Depreciation	$	5,113	$	7,428	$	8,148
Total Non-Current Assets	$	20,728	$	21,463	$	21,231
Total Assets	$	34,720	$	38,764	$	50,620
Liabilities						
Current Liabilities:						
Accounts Payable	$	4,879	$	5,312	$	6,097
Notes Payable—Bank	$	1,000	$	3,500	$	2,000
Notes Payable—Other	$	5,500				
Accrued Taxes	$	1,612	$	1,749	$	581
Total Current Liabilities	$	12,991	$	10,561	$	8,678
Net Worth:						
Owner's Investment	$	12,500	$	12,500	$	25,000
Retained Earnings	$	9,229	$	15,703	$	16,942
Total Net Worth	$	21,729	$	28,203	$	41,942
Total Liabilities & Net Worth	$	34,720	$	38,764	$	50,620

EXHIBIT III **Profit and Loss Worksheet**

Date: PROFIT (LOSS) PROJECTION:

Prepared: Company:

Date:

	Jan	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Totals	Percent of Sales
Gross Revenue:														
a)Product Sales													$	%
b)Service														%
1)Total Revenue (a+b)	$	$	$	$	$	$	$	$	$	$	$	$	$	%
Cost of Goods sold:														
c)Product purchases													$	%
d)Shipping													$	%
2)Total Cost of Goods (c+d)	$	$	$	$	$	$	$	$	$	$	$	$	$	%
3)Gross Profit (1-2)	$	$	$	$	$	$	$	$	$	$	$	$	$	%
Operating Expenses:														
Salaries/Wages													$	%
Payroll Taxes													$	%
Supplies													$	%
Repairs & Maintenance													$	%
Advertising													$	%
Car, Deliv. & Travel													$	%
Accounting & Legal													$	%
Rent/Lease													$	%
Telephone													$	%
Utilities													$	%
Insurance													$	%
Taxes (e.g. B&O)													$	%
Depreciation													$	%
Interest													$	%
Miscellaneous													$	%
4)Total Expenses	$	$	$	$	$	$	$	$	$	$	$	$	$	%
Net Profit Before Tax (3-4)	$	$	$	$	$	$	$	$	$	$	$	$	$	%

Exhibit IV
Cash Budget

Assumptions Worksheet

Name of Business:	**Preparer:**	**Date:**

Use these guidelines in preparing your assumptions:

Minimum Cash Balance

1. The amount of cash required to meet day-to-day needs.

Cash Receipts

Sales:

1. Sources of sales
2. Historical trends
2. External factors (population growth, competition, economics, industry trends)
3. Internal factors such as new products or services, location, employee productivity, operating efficiency, capacity, advertising strategy, sales incentives
4. Proportion of sales received in cash and on credit
5. If sales include sales tax, be sure to indicate as an expense in "Taxes" below
6. Expected contracts and probability of successful bid

Collections from Credit Accounts:

1. Rate of collection (net 30, net 60, net 90 days; % uncollected)

Cash Injection:

1. Amounts anticipated to be available for shortfalls.
2. Sources of cash injection.

Cash Paid Out

Purchases:

1. Direct materials as a percentage of sales
2. Proportion of purchases paid in cash and on credit
3. Payment schedule (30, 60, 90 days)
4. Minimum inventory level
5. Discounts taken & opportunities for discounts, cost effective suppliers, etc.

Wages:

1. Percentage of variable wages (i.e. varies with sales level) to sales
2. Percentage of fixed wages to sales
3. Anticipated employee additions or terminations
4. Gross wage rates by employee and/or job class
5. Anticipated overtime
6. Overtime rate
7. Hours worked per day: Variable Fixed
8. Payment schedule
9. Temporary employment costs due to illness and vacation

Payroll Expenses:

1. Payroll tax rates: FICA/Med =
   FUTA =
   Workers Comp =
   SUI =
2. Paid Health Benefits =
3. Payment schedule for all payroll taxes (including Fed. withholding)

Outside Services:

1. Subcontractors, etc.

Supplies:

1. Variable shop supplies as a percent of sales (i.e. varies with sales level)
2. Controllable shop or operating supplies
3. Controllable office supplies

Repairs and Maintenance:

1. Building (e.g. janitorial, renovation, etc.)
2. Equipment (e.g. non-warranty repairs, mtce)

Advertising:

1. Type of advertising
2. Timing (when is cash actually paid)
3. Cost

Car, Deliver, Travel:

1. Anticipated business travel (purpose, cost, timing)
2. Expected mileage or actual expense
3. Leased auto costs
4. Car rental costs

Accounting and Legal:

1. Anticipated costs and timing

Rent:

1. Term of lease
2. Negotiated rate
3. Anticipated increases due to taxes, etc.

Telephone:

1. Anticipated use (historical)
2. Expected increases in basic charges
3. Cellular phone costs

Utilities:

1. Direct utilities as a percentage of sales
2. Indirect utilities (historical use)
3. Anticipated increases in basic charges

Insurance:

1. Coverage on business property and products (e.g. fire, theft, liability)
2. Bonds
3. Disability and/or life
4. Timing of payments
5. Anticipated increases

Taxes:

1. B&O tax rate
2. B&O payment schedule
3. Property tax assessment (if applicable)
4. Sales tax rate (see "Sales")
5. Payment schedule for all taxes

Licenses and Permits:

1. Types
2. Cost
3. Due dates
4. Anticipated increases

Bank Charges:

1. Checking account charges (e.g. checks, processing, etc.)
2. Bank services (expected cost, timing)

Equipment Rental/Lease:

1. Type of equipment
2. Terms of lease
3. Temporary uses/timing

Interest:

1. Types of credit
2. Terms of loan(s) (e.g. beginning balance, interest rate, length)
3. Timing

Non-operating Cash Paid Out

Loan Principal Payments:

1. Terms of loan(s) (e.g. beginning balance, interest rate, length)
2. Timing
3. Anticipated additional principal payments

Capital Purchases:

1. Expected equipment, auto, office, or other capital purchases
2. Method of payment
3. Timing
4. Terms of loan(s) (e.g. beginning balance, interest rate, length)

Owner's Withdrawal:

1. Minimum requirements
2. Anticipated draws (amount, timing)

Non-Cash Flow Information

Depreciation and/or Amortization:

1. Methods used
2. Anticipated monthly deductions

Accounts receivable balance

Accounts payable balance

Anticipated bad debts

EXHIBIT V

Cash Flow Projection Worksheet

NAME OF BUSINESS: ADDRESS: TYPE OF BUSINESS: PREPARED BY: DATE:

	Pre-Startup Position*	1	2	3	4	5	6	7	8	9	10	11	12	YEAR END
Year: 1999 **Month:**														**Total**
1. CASH ON HAND														
2. CASH RECEIPTS														
Current Cash Sales														
30 Days Credit Collections														
60 Days Credit Collections														
Equity Injection														
Loan Proceeds														
3. TOTAL CASH RECEIPTS														
4. TOTAL CASH AVAILABLE														
5. CASH PAID OUT														
Purchases														
Salaries/Wages														
Payroll Taxes														
Outside Services														
Supplies														
Repairs & Maintenance														
Advertising														
Car, Deliv. & Travel														
Accounting & Legal														
Rent/Lease														
Telephone														
Utilities														
Insurance														
Taxes														
Interest														
Miscellaneous														
Subtotal														
Loan Principal Payment														
Capital Purchases														
Other Start-up Costs														
Reserved and/or Escrow														
Owner's Withdraw														
6. TOTAL CASH PAID OUT														
7. CASH POSITION														

* Use for Start-up Companies

EXHIBIT VI
Company Name
BALANCE SHEET
As of (*current date*)

ASSETS		
Current Assets		
Cash		$______
Accounts receivable	$______	
less allowance for doubtful accounts	$______	
Net realization value		$______
Inventory		$______
Temporary Investments		$______
Prepaid Expenses		$______
Total Current Assets		$______
Long-term Investments		$______
(detailed list)		
Total Investments		$______
Fixed Assets		
Land		$______
Buildings	$______	
less accumulated depreciation	$______	
Net book value		$______
Equipment	$______	
less accumulated depreciation	$______	
Net book value		$______
Furniture/Fixtures	$______	
less accumulated depreciation	$______	
Net book value		$______
Autos/Trucks	$______	
less accumulated depreciation	$______	
Net book value		$______
Total Net Fixed Assets		$______
Other Assets		
(detailed list)		$______
Total Other Assets		$______
TOTAL ASSETS		$______

LIABILITIES	
Current Liabilities	
Accounts payable	$______
Short-term notes	$______
Current portion of long-term notes	$______
Interest payable	$______
Taxes payable	$______
Accrued payroll	$______
Total Current Liabilities	$______
Long-Term Liabilities	
Notes payable	$______
Total Long-Term Liabilities	$______
TOTAL LIABILITIES	$______
EQUITY	
Total Owner's Equity (proprietorship)	$______
or	
(*Name*)'s Equity	$______
(*Name*)'s Equity	$______
(partnership)	
Total Partners' Equity	$______
or	
Shareholder's Equity (corporation)	
Capital stock	$______
Capital paid-in in excess of par	$______
Retained earnings	$______
Total Shareholders' Equity	$______
TOTAL LIABILITIES AND EQUITY	$______

RECONCILEMENT OF EQUITY
As of (current date)

Equity at beginning of period	$______
Plus: Net Income (**or** Minus: Net Loss) after taxes	$______
Plus: Additional capital contributions (investments by owner(s) **or** stock purchases by shareholders)	$______
Less: Total deductions (withdrawals by owner(s) **or** dividends to shareholders)	$______
Equity as shown on current Balance Sheet	$______

Balance Sheet

A Balance Sheet records the total assets, liabilities, and equity (net worth) of a business as of a specific day. This statement is divided to provide two views of the same business: what resources the business owns, and the creditor and owner investments that supplied these resources. These divisions are generally set up in the two-column account form with assets on the left, liabilities and equity on the right. An alternative—the one-column statement form, or report from—lists assets on top, liabilities and equity below.

The backbone of the Balance Sheet is the fundamental accounting equation: Assets = Liabilities + Equity (transposed: Assets – Liabilities = Equity). This equation is based on the accounting principle that every business transaction, such as selling merchandise or borrowing capital, has a dual effect. Any increase or decrease on one side of the equation always equal a corresponding change on the other side of the equation. If the sides don't balance, faulty arithmetic or inaccurate or incomplete records may be the cause.

To illustrate the principle of balance: If a business owner purchases $1,000 worth of new merchandise on credit, assets are increased by the value of new inventory; simultaneously, liabilities are increased $1,000 by the business's incurring an account payable.

To further illustrate the principle: If the same business had $1,000 cash and used it to buy new merchandise, assets would be increased by the inventory value but decreased by the cash outlay. Thus, total assets would be unchanged, and liabilities and equity would also remain the same.

The following text covers the essential elements of a Balance Sheet and is keyed by number to the sample.

1. Heading The legal name of the business, the type of statement, and the day, month, and year must be shown at the top of the report.

2. Assets Anything of value that is owned or legally die the business is included under this heading. Total assets include all net realizable and net book (also called net carrying) values. Appreciated values are not considered on Balance Sheets (see page 10 for further discussion of appreciation). Net realizable and net book values are amounts derived by subtracting from the acquisition price of assets any estimated allowances for doubtful accounts, depreciation, and reductions of future service—such as amortization of a premium during the term of an insurance policy.

3. Current Assets Cash and resources that can be converted into cash within 12 months of the date of the Balance Sheet (or during one established cycle of operations) are considered current. Besides cash (money on hand and demand deposits in the bank, such as checking accounts and regular savings accounts), these resources include the items listed below. they are ranked in a generally accepted order of decreasing liquidity—that is, the ease with which the items could be converted to cash.

- Accounts Receivable: The amounts due from customers in payment for merchandise or services.

- Inventory: Includes raw materials on hand, work in process, and all finished goods either manufactured or purchased for resale. Inventory value is based on unit cost and is calculated by any of several methods.

- Temporary Investments: Interest- or dividend-yielding holdings expected to be converted into cash within a year. Also called marketable securities or short-term investments, they include stocks and bonds, certificates of deposit, and time deposit savings accounts. According to accounting principles, they must be listed on the Balance Sheet at either their original cost or their market value, whichever is less.

- Prepaid Expenses: Goods, benefits, or services a business buys or rents in advance of use. Examples are office supplies, insurance protection, and floor space.

4. Long-Term Investments Also called long-term assets, these resources are holdings that the business intends to keep for a year or longer and that typically yield interest or dividends. Included are stocks, bonds, and savings accounts earmarked for special purposes.

5. Fixed Assets Fixed assets, frequently called plant and equipment, are the resources a business owns or acquires for use in operations and does not intend for resale. Examples of such properties are listed on the sample statement.

regardless of current market value, land is listed at its original purchase price, with no allowance for appreciation or depreciation. Other fixed assets are listed at cost, less depreciation. Fixed assets may be leased rather than owned. Depending on the leasing arrangement, both the value and the liability of the leased property may need to be listed on the Balance Sheet.

6. Other Assets Resources not listed with any of the above assets are grouped her. Examples include tangibles, such as outdated equipment salable to the scrap yard, and intangibles such as trademarks.

7. Liabilities This term covers all monetary obligations of a business and all claims creditors have on its assets.

8. Current Liabilities All debts and obligations payable within 12 months or within one cycle of operations are detailed her. Typically, they include the following which generally are listed in the order due.

- Accounts Payable: The amounts owed to suppliers for goods and services purchased in connection with business operations.
- Short-Term Notes: The balance of principal due to pay off short-term debt for borrowed funds.
- Current Portion of Long-Term Notes: Current amount due of total balance on notes whose term exceed 12 months.
- Interest Payable: Any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.
- Taxes Payable: Amounts estimated by an accountant to have been incurred during the accounting period. (Note: Income taxes are business obligations for corporations; proprietorships and partnerships bear personal, but not business, income taxes.
- Accrued Payroll: Salaries and wages currently owed.

9. Long-Term Liabilities Long-term liabilities are notes, contract payments, or mortgage payments due over a period exceeding 12 months or one cycle of operations. they are listed by outstanding balance (less the Current Portion due, shown above).

10. Equity Also called net worth, equity is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

In a corporation, the owners are the shareholders—those who have invested capital (cash or other assets) in exchange for shares of stock. the corporation's equity is the sum of contributions plus earnings retained after paring dividends; it is detailed as follows:

- Capital Stock: The total amount invested in the business in exchange for shares of stock at values up to the par value. Par is the per-share price assigned to the original issue of stock, regardless of subsequent selling prices.
- Capital Paid-in in Excess of Par: The amount in excess of par value that a business receives from shares of stock sold at a value above par.
- Retained Earnings: the total accumulated net income minus the total accumulated dividends declared since the corporation's founding. these earnings are part of the total equity for any business. However, the figure is typically listed separately from owner investments only on corporate Balance Sheets: that is done for the benefit of shareholders.

11. Total Liabilities and Equity the sum of these two amounts must always match that for Total Assets.

12. Reconcilement of Equity Used for proprietorships and partnerships, this report reconciles the Equity shown on the current Balance Sheet. It records Equity at the beginning of the accounting period and details additions to or subtractions from this amount made during the period. Additions and subtractions typically are net income or loss and owner contributions and/or deductions.

For corporations, the same type of report is called the Statement of Retained Earnings, and similarly it lists increases or decreases in this accumulated net income since the beginning of the current period.

Figures used to compile this report are derived from the precious and current Balance Sheets and from the current Income Statement. The report is usually attached to the Balance Sheet.

EXHIBIT VII

BREAK-EVEN ANALYSIS PROCEDURE

Step 1: Classify costs into two groups – Fixed and Variable

Fixed costs are those that will remain the same over a reasonable range of sales.
Variable costs are caused by sales and increase or decrease as sales volume increases or decreases.

Step 2: Determine the variable cost percentage.

$$\text{Variable Cost \%} = \frac{\text{Variable Cost}}{\text{Sales}}$$

Step 3: Determine the Contribution Margin Ratio (C.M.R.)

Contribution Margin Ratio = 100% minus Variable Cost %

Step 4: Calculate Break-Even Sales

$$\text{Break-Even Sales} = \frac{\text{Annual Fixed Cost}}{\text{Contribution Margin Ratio}}$$

$$\text{Break-Even Units} = \frac{\text{Annual Fixed Cost}}{\text{Price/Unit minus Variable Cost/Unit}}$$

Units	**Dollars**
$\frac{\text{Annual Fixed Cost}}{\text{P/Unit – V.C./Unit}}$	$\frac{\text{Annual Fixed Cost}}{\text{C.M.R.}}$
$\frac{\text{Annual Fixed Cost \& Profit}}{\text{P/Unit – V.C./Unit}}$	$\frac{\text{Annual Fixed Cost \& Profit}}{\text{C.M.R.}}$

BASIC BREAK-EVEN ANALYSIS FORMAT

Example

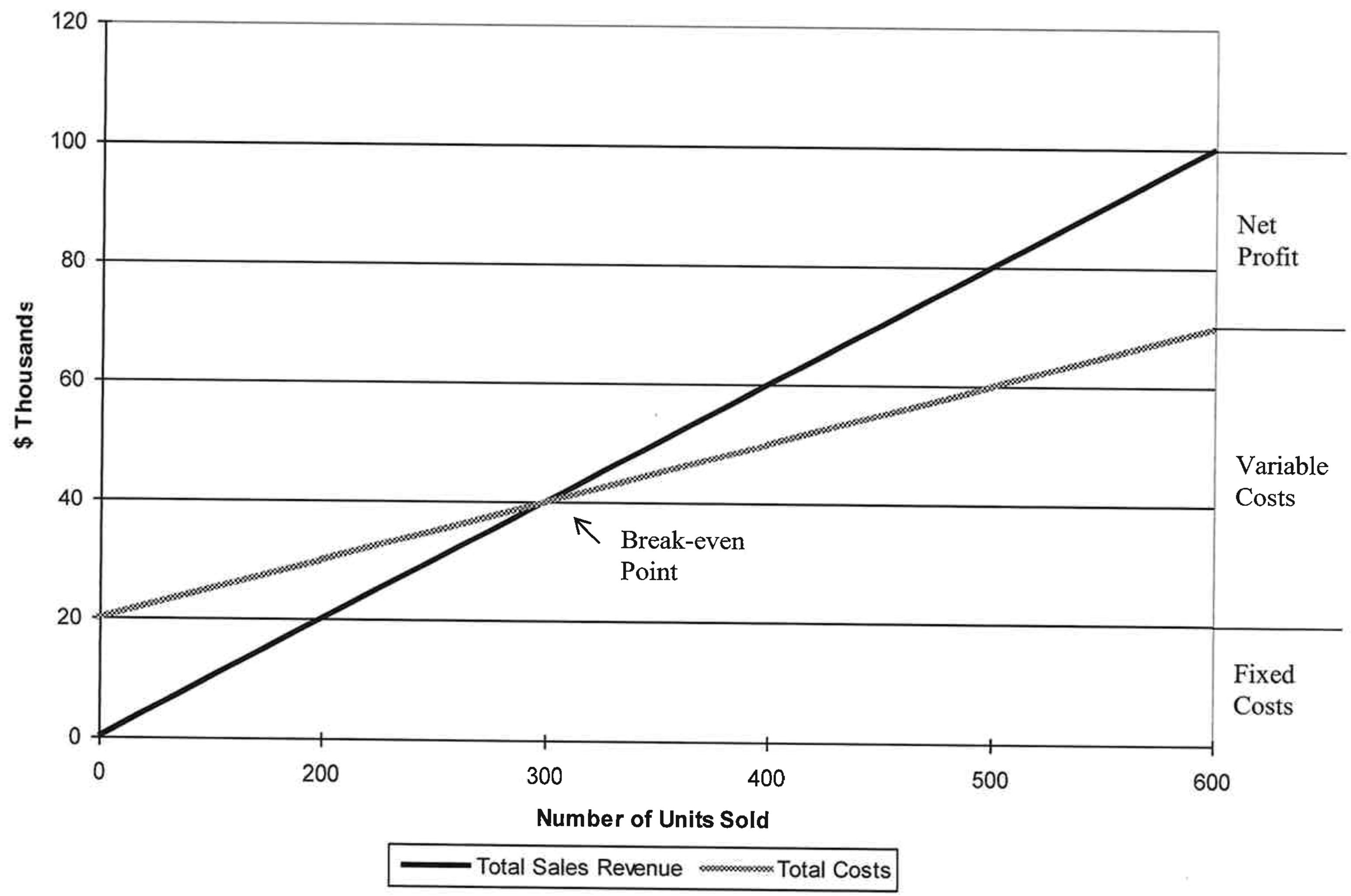

EXHIBIT VIII - MILESTONES

DESCRIPTION	RESPONSIBILITY	TIMELINE	EXAMPLES OF MEASUREABLE RESULTS (when task completed) *(Example only -May not be comprehensive)*
1. Organization - Initial			
List personal and professional goals and make the commitment to go into business for yourself	Owner* and family	Week 1	Mission Statement Values Statement Goals and Objectives
List your strengths and weaknesses, paying special attention to your business experience, business education, and desires. Answer this question: What five factors lead me to believe I should be in business for myself?	Owner	Week 1	Risk assessment Debt capacity Equity contribution Initial Legal structure
List your financial strengths and weaknesses; pay attention to credit history available cash/assets, and current financial obligations, outside resources.	Owner and family	Week 1	Business name Domain registration Management team and consultants
Describe the product or service that best fits your strengths and desires. Then answer these questions: What business am I in? What need will my product or service fill? What is unique about my product or service? How do I know it is unique? What benefits do my product or service provide my customers? What will my product or service not do? What should it do later but does not do now?	Owner and Consultants	Week 1	Proprietary protection
2. Market Environment - Assessment			
Research the industry you plan to enter to answer these questions: What is the nature of this industry? Are there business or seasonal cycles? Is it growing, stagnant, or declining? What are the factors for success?	Owner and Consultants	Weeks 2 & 3	Industry Analysis
Research the market for your product or service to find answers to the following: Who are my customers? Where are they? What is their average income? How do they buy? At what price? In what quantities? When do they buy? When will they use my product or service? Where will they use it? Why will they buy it? How are their needs being met now?			Customer Profile Market Size Pricing guideline Prelim. Market Strategy
Who are my competitors? Where are they? What are their strengths? Weaknesses? What will be their reaction when my business enters the market?	Owner and Consultants	Weeks 3 & 4	Analysis of Competitive environment
Find out the sales revenues in your geographic area for your product/service.	Owner and	Weeks 5 & 6	Sales Forecast

Then forecast your sales revenues over a three-year period, broken down as follows: First year - monthly Second year - quarterly Third year - yearly Next, answer these questions: Will overall total sales increase or is demand at capacity? What percentage of the total do my sales figures represent? What factors indicate my sales forecast is realistic?	Consultants		
Choose a site for your business. Then answer these questions: Will customers come to your place of business? How will you accommodate them? How much space do you need? Is the site zoned for everything that must be accomplised? What advantages does this site have over other possible sites? What disadvantages? List ways they can be overcome.	Owner and Consultants	Weeks 7 & 8	Site plan Working capital requirements
3. Operations			
(If a manufacturer) Develop your production plan, answering these questions: What plant size requirements will be needed for my intended level of production? How should my production process be laid out? What equipment will I need to produce the desired quality and quanitity of product? In what size? What steps will I take to control product concerns such as: safety, waste, quality, and inventory?	Owner and Consultants	Weeks 7 & 8	Space Layout Capitalization Requirements Permit plan Quality control goals Prelim. organization plan Transportation/distribution plan
(If service provider) Develop processes and procedures and answer these questions: What customer service policies are in place? Have you developed procedures that will deliver a consistent, quality service time and again?	Owner and Consultants	Weeks 7& 8	Processes and procedures Service policies Capitalization Requirements Prelim. organization plan
(If a retailer) Develop a merchandising plan and answer these questions: What will you buy and sell? Which of your lines of goods will yield the greatest profit? What do people ask for that they find difficult or inconvenient to get now? How should your store be laid out to meet customers' needs? How will you control inventory?	Owner and Consultants	Weeks 7& 8	Supplier network Space and layout requirements Capitalization Requirements Prelim. organization plan Merchandising plan
4. Market Environment - Strategize			
Develop your marketing plan, answering such questions as:	Owner and Consultants	Weeks 9 & 10	Marketing Plan: Strategy and Tactics

How am I going to create customers? What price is consistent with the market and covers my cost plus profit? What kinds of advertising and sales promotion tools will I use? What methods of personal selling with be used? How will these methods be implemented?			Working capital costs
5. Organization - Structure, Administration, Risk Management			
Develop your organizational plan, answering the following: What kinds of skills and talents will I need to make my business grow? Draw up an organizational chart that spells out who does what, who has what authority, and who reports to whom.	Owner and Consultants	Week 11	Organizational plan Job specifications Recruitment strategy
Identify your needs and develop your legal plan, focusing on which form (sole proprietorship, partnership, or corporation) best fits your needs.	Owner and Attorney	Weeks 11 - 16	Legal entity registration
Develop your accounting plan by explaining the kinds of records you need, how you will use them, and how day-to-day transactions will be recorded. Identify the checks and balances that will be implemented. Consult with a tax accountant to identify deductible expenses and accounting options.	Owner and Certified Public Accountant	Weeks 11 - 16	Chart of accounts Accounting software/training Forms and documents Filing system
Investigate business bank account options by gathering information from commercial banks.	Owner and Banker	Weeks 11 - 16	Business bank account
Develop your insurance plan, by answering these questions: What risks do my product/service represent? What insurance options are available to minimize risks? At what cost? What measures can I take to reduce risk?	Owner and Insurance agent	Weeks 11 - 16	Risk management plan
6. Financial Plan			
Develop your financial plan by preparing these statements: A three-year cash budget. Show how much cash you will need before opening the business and how much cash you expect will flow in and out of your business:	Owner and Consultant or Accountant	Weeks 15 & 16	Cash budget with assumptions Sources and Uses statement
Cash Flow First year - monthly Second year - monthly Third year - quarterly Develop:	Owner and Consultant or Accountant	Weeks 15 & 16	Cash Flow Projection
Develop Balance sheets for the beginning and end of the first year (showing how assets will be used)	Owner and Consultant or Accountant	Weeks 15 & 16	Pro Forma Balance Sheets
An income statement for the first year only	Owner and Consultant or	Weeks 15 & 16	Pro Forma Income Statement

	Accountant		
A break-even chart showing when you will begin making a profit Then, determine how you will finance your business by listing resources you will commit (cash and other assets) and matching your financial needs with loan/equity sources.	Owner and Consultant or Accountant	Weeks 15 & 16	Break-Even analysis
Write summary of your business plan, stressing its purpose and its promise.	Owner	Week 16	Finished business plan (or loan proposal)

*Owner may be singular or plural

Adapted from Small Business Management, Siropolis, 5th edition, p. 75