

Entrepreneurship

Name _____

Chapter 9

Plan and Track Your Finances

9.1 Finance Your Business

9.2 Pro Forma Financial Statements

9.3 Record Keeping for Businesses

OBJECTIVES:

- Estimate your startup costs and personal net worth.
- Identify sources of equity capital for your business.
- Identify sources of debt capital for your business
- Prepare a pro forma cash flow statement.
- Prepare a pro forma income statement.
- Prepare pro forma balance sheets
- Describe the use of journals and ledgers in a record keeping system.
- Explain the importance of keeping accurate and up-to-date bank, payroll, and tax records.

Assess Your Financial Needs

- Itemize _____.
- Determine the amount of _____ required to start your business.

STARTUP COSTS Walters Electric	
Item	Estimated Cost
Equipment and supplies	
Computers (3 @ \$1,500)	\$ 4,500
Scanner	175
Cash registers (2 @ \$1,800)	3,600
Fax machine	400
Supplies	300
Subtotal	<u>\$ 8,975</u>
Furniture and fixtures	
Desks (4 @ \$400)	\$ 1,600
Chairs (8 @ \$75)	600
Subtotal	<u>\$ 2,200</u>
Vehicles	
Delivery truck	\$10,000
Automobile	8,000
Subtotal	<u>\$18,000</u>
Remodeling	
Drywall replacement	\$ 1,000
Electrical work	2,500
Paint	1,000
Carpet	3,000
Subtotal	<u>\$ 7,500</u>
Legal and accounting fees	<u>\$ 3,000</u>
Total	<u><u>\$39,675</u></u>

Personal Financial Statement

■ _____ = assets — liabilities

■ _____ = personal assets — personal liabilities

PERSONAL FINANCIAL STATEMENT			
Felicia Walters			
Assets		Liabilities	
Cash	\$ 5,000	Car loan	\$ 6,900
Checking account	13,500	College loan	4,000
Certificate of Deposit	6,000	Credit cards	1,300
Stock	10,000		
Computer equipment	3,000		
Coin collection	<u>2,500</u>		
Total assets	\$40,000	Total liabilities	<u>\$12,200</u>
Total assets – Total liabilities = Net worth			
\$40,000 – \$12,200 = \$27,800			

Equity Capital

- _____
 - the relation between the dollars you have borrowed and the dollars you have invested in your business
- The higher percentage of your own money that you have invested, the easier it will be for you to get others to invest.
- **equity** _____
 - the money invested in a business in return for a share in the profits of the business
- Sources of **equity** include:
 1. _____
 2. _____
- **Venture Capitalists**
 - individuals or companies that make a living investing in

Debt Capital

- _____ capital
 - money loaned to a business with the understanding that the money will be repaid
 - usually with _____
- **Friends and** _____
 - determine how the loan will affect your relationship
 - prepare a _____ regarding repayment terms

Commercial Bank Loans

- _____
–loans that are backed by collateral
- _____
–loans that are not guaranteed with collateral
only made to creditworthy customers
- _____
–property that the _____ if
he or she defaults on the loan

Types of secured loans include the following:

- _____
- _____
- accounts receivable financing
- inventory financing

Reasons a bank may not lend money include:

- The business is a _____.
- A lack of:
 1. a solid _____
 2. adequate _____
 3. confidence in the borrower
 4. personal investment

■ Other sources of _____include:

- Small Business Administration (SBA)
- Small Business Investment Companies
- Minority Enterprise Small Business Investment Companies
- Department of Housing and Urban Development
- The Economic Development Administration
- _____ Governments
- _____ and Municipal Governments

Cash Flow Statement

- **cash flow statement**
 - an accounting report that describes the way

over a period of time

Forecast Receipts

Estimate monthly _____

FORECASTED RECEIPTS			
Walters Electric			
January 20—			
Cash sales			
	Quantity Sold	Price	Total
CFL bulbs	20	\$ 15	\$ 300
Indoor light fixtures	10	155	1,550
Outdoor lights	6	175	1,050
Subtotal			<u>\$2,900</u>
Accounts receivable			<u>\$ 300</u>
Bank loan			<u>\$1,000</u>
Total			<u><u>\$4,200</u></u>

Forecast Disbursements

estimate monthly _____

FORECASTED DISBURSEMENTS	
Walters Electric	
January 20—	
Disbursement	Amount
Cost of goods	\$2,400
Rent	900
Utilities	100
Salaries	2,000
Advertising	700
Supplies	100
Insurance	75
Payroll taxes	175
Other	<u>50</u>
Total	<u><u>\$6,500</u></u>

Prepare the Cash Flow Statement

- _____ = cash receipts – cash disbursements
- Tracking monthly cash flow statements
 - enables you to anticipate periods of _____ & _____ cash flow

Economic Effects on Cash Flow

- Changes in the _____ can dramatically effect the cash flow of businesses.
- Business owners should make _____ estimates.

PRO FORMA CASH FLOW STATEMENT

Walters Electric
January–June 20—

	Jan	Feb	Mar	Apr	May	June
Cash receipts	<u>\$4,200</u>	<u>\$5,410</u>	<u>\$5,750</u>	<u>\$6,320</u>	<u>\$7,375</u>	<u>\$8,130</u>
Cash disbursements						
Cost of goods	\$2,400	\$2,520	2,520	2,640	3,300	3,480
Rent	900	900	900	900	900	900
Utilities	100	100	100	100	100	100
Salaries	2,000	2,000	2,000	2,000	2,000	2,000
Advertising	700	700	700	700	700	700
Supplies	100	115	130	150	150	150
Insurance	75	75	75	75	75	75
Payroll taxes	175	175	175	175	175	175
Other	50	50	50	50	50	50
Total disbursements	<u>\$6,500</u>	<u>\$6,635</u>	<u>\$6,650</u>	<u>\$6,790</u>	<u>\$7,450</u>	<u>\$7,630</u>
Cash Flow	<u><u>-\$2,300</u></u>	<u><u>-\$1,225</u></u>	<u><u>-\$ 900</u></u>	<u><u>-\$ 470</u></u>	<u><u>-\$ 75</u></u>	<u><u>\$ 500</u></u>

Income Statement

- **income statement**

- shows _____ & _____
incurred over a period of time
- shows the _____ or _____ for
the time period

Prepare a Pro Forma Income Statement

- The _____ of your business can be demonstrated by a pro forma income statement prepared for multiple years.
- The **pro forma income statement** consists of:
 1. _____
 2. Cost of goods sold (COGS)
 3. Gross _____
 4. _____
 5. Net income before taxes (NI b/f tax)
 6. Taxes
 7. Net income/loss after taxes

PRO FORMA INCOME STATEMENT

Walters Electric, 20 —

	Year 2	Year 3
Revenue	\$115,000	\$125,000
Cost of goods sold	55,400	60,000
Gross profit	<u>\$ 59,600</u>	<u>\$ 65,000</u>
Operating expenses		
Salaries	\$ 26,705	\$ 27,315
Rent	10,800	10,800
Utilities	1,230	1,260
Advertising	1,200	1,200
Insurance	900	900
Supplies	600	615
Other	615	615
Total operating expenses	<u>\$ 42,050</u>	<u>\$ 42,705</u>
Net income before taxes	\$ 17,550	\$ 22,295
Taxes	7,020	8,918
Net income/loss after taxes	<u><u>\$ 10,530</u></u>	<u><u>\$ 13,377</u></u>

Balance Sheet

- **balance sheet**
 - a financial statement that lists
 - what a business _____
 - what a business _____
 - how much a business is **worth at a point in time**
- _____ = **liabilities + owner's equity**

Prepare a Pro Forma Balance Sheet

- _____ **assets**
 - used for many years
- _____ **assets**
 - items that are used up in normal business operations (less than year)
- **Accounts** _____ **(A/R)**
 - the amounts owed to a business by its credit customers
- _____ **liabilities**
 - debts that are payable over a year or longer
- _____ **liabilities**
 - debts that must be paid in full in less than a year
- **accounts** _____ **(A/P)**
 - amounts owed to vendors for merchandise purchased on credit
- **allowance for uncollectible accounts**
 - the amount a company estimates it will not receive from customers
- _____
 - the lowering of an asset's value to reflect its current worth

PRO FORMA BALANCE SHEET

Walters Electric
December 31, 20—

Assets

Current assets

Cash	\$ 1,000
Accounts receivable	8,000
Less allowance for uncollectible accts.	-500
Inventory	14,000
Total current assets	<u>\$22,500</u>

Fixed assets

Equipment	\$ 8,975
Less depreciation	-1,795
Furniture	2,200
Less depreciation	-220
Vehicles	18,000
Less depreciation	-3,600
Total fixed assets	<u>\$23,560</u>
Total assets	<u><u>\$46,060</u></u>

Liabilities

Current liabilities

Accounts payable	\$12,000
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Long-term liabilities

Loans payable	\$17,900
Total liabilities	<u>\$29,900</u>

Owner's Equity

Felicia Walters	<u>\$16,160</u>
Total liabilities and owner's equity	<u><u>\$46,060</u></u>

Recording Transactions

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 - any business activity that changes assets, liabilities or net worth

- **Journals**

- accounting records of the transactions you make for

1. _____
2. _____
3. _____
4. _____

- ---

 - A general ledger is made up of accounts.

- **Account**

- an accounting record that provides financial detail for a particular business item

- **subsidiary ledger**

- used for accounts payable to show in detail the transactions with each _____ from whom merchandise is purchased on account

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 - a record keeping tool for tracking accounts receivable shows how long it takes customers to pay their bills

Aging Table

Customer	Amount	0–30 days	31–60 days	over 61 days
E. Kwon	\$175.23	\$175.23		
P. Mossett	\$106.20		\$106.20	
M. Stern	\$82.34			\$82.34
Totals	\$363.77	\$175.23	\$106.20	\$82.34
Percent of total	100%	48%	29%	23%

Business Records

- A business _____ should be established.
- **check register**
 - booklet (or electronic register) where you record information for each check written
 1. _____
 2. _____
 3. name of person or business receiving your payment
- _____ **Your Account**
 - You should balance your account each time a transaction occurs.
- **Reconcile Your Account**
 - Each month you should _____ your bank statement with your check register.
- **Payroll**
 - a list of people who receive _____ or _____ payments from a business

BANK RECONCILIATION

Bank statement balance	\$2,151.00	Balance from checkbook	\$2,501.15
Add outstanding deposits	<u>660.00</u>	Add deposit not recorded	<u>0.00</u>
Subtotal	\$2,811.00	Subtotal	\$2,501.15
Deduct outstanding checks:		Deduct bank fees	<u>12.00</u>
#345 \$ 60.00		Balance less fees	\$2,489.15
#366 105.60			
#369 <u>150.00</u>		Add interest earned	<u>6.25</u>
Total outstanding checks	<u>315.60</u>		
Adjusted bank balance	<u><u>\$2,495.40</u></u>	Adjusted checkbook balance	<u><u>\$2,495.40</u></u>

TAXES

- _____Tax
 - Businesses that earn a profit must pay income tax quarterly
- **Payroll Taxes and Deductions**
 1. deduct taxes from _____ paychecks
 - submit taxes to the government
 2. unemployment insurance taxes
 3. _____ taxes
 4. voluntary deductions
- _____Tax
 - Sales taxes are based on a _____ of sales.
 - Each month you deposit sales tax into a government owned account.