



**MAGEE GAMMON**  
CHARTERED ACCOUNTANTS

## Financial planning for businesses

This guide looks at how financial planning can help you and your business succeed.

Financial planning is essential to the success of any business, whichever stage it is at. Having an accurate idea of your current and likely future finances can help reduce the impact of any unforeseen challenges and let you get on with running your business.

### Financial planning for start ups

Before you set about turning your entrepreneurial dream into a reality, you need to objectively assess whether your idea will work as a business. An amazing idea will not translate into a profitable business if no one is willing to buy your products or services at the price you want to charge.

A business plan is a useful tool to help you decide whether you have a viable business strategy. There are no set rules about what to include but most business plans detail:

- the business
- the opportunities and threats
- the risks
- its objectives
- the strategies to achieve its objectives
- the market
- financial forecasts.

This document can be used to help secure funding and act as a road map to guide your

business decisions. It will also highlight flaws in your plans and hopefully help you avoid making costly mistakes.

### Start-up costs

The first 12 months of a business are likely to be the hardest financially as you may need to invest considerable amounts of money long before sales start coming in. Before you start trading, calculate what you will have to spend money on during the first year of your business. Compare this to how much money you have to fund your business and how much you realistically expect to earn in the first year.

Premises can often be the most expensive initial outlay, which explains why many businesses now begin at home. You may also need to factor in the cost of refitting, making a building legally safe and running costs.

Costs to consider in the first year include:

One off costs	Regular outgoings
Equipment (including installation)	Rent or mortgage repayments
Initial stock	Insurance
Marketing and advertising	Wages
Vehicles	Bills



Business UPDATE

If you can't afford to cover these costs, you may need to consider applying for external finance or scaling back your plans.

### Financial forecasts

Financial forecasts help business at all stages of development get a clear short, medium and long-term picture of their finances. The 2 primary financial forecasts are:

- profit and loss, including the sales and gross profit margin
- cashflow, including monthly peaks.

### Profit and loss forecasts

A profit and loss - or P&L - forecast is usually made up of 2 parts:

#### The sales forecasts

Sales forecasts are an estimate of the sales revenue you expect to generate each month. This allows you to plan your sales strategy and prioritise resources accordingly.