



# Financial planning for businesses

Consider how likely you are to make a sale based on:

- your market share
- resources (including staff)
- prices
- barriers to making sales
- your products
- marketing and advertising plans
- legislation changes.

This information might be difficult to predict for new businesses. However, it gets easier over time as you can use figures from previous months and years to build a more accurate picture of how much you expect to sell.

New businesses can compare start-up costs against sales forecasts to get an indication of the viability of their business idea. If start-up costs outweigh expected revenue, you will need to think of ways to sell more, reduce costs or find a more feasible business idea.

## Expenditure forecast

The second part of the profit and loss account is the expenditure forecast. This provides the insight you must have in order to establish how profitable you might be. Best projected on a monthly basis, an expenditure forecast includes:

- expected sales
- cost of sales
- gross profit margin
- expenditure – the overheads
- projected net profit.

Compare expected figures with the actual figures to see discrepancies in your forecasts and where you can make savings.

Limited companies have to supply HMRC with a profit and loss statement as part of their annual statutory accounts.

## Cashflow forecasts

Every business, no matter how profitable, needs to make sure there is enough money coming in to pay the bills on time. A cashflow forecast is a list of business expenditure and income. It lets you see easily when you will have a shortfall or surplus of cash and allows you to plan accordingly.

Cashflow forecasts can be compiled monthly or weekly depending on the needs of the business. Things to take into account may include:

Expenditure	Income
Stock and materials	Sales
Equipment	Interest on savings
Wages, rent and utilities	Bank loans
Running costs	Shareholder and/or director investments
Loan repayments	
Dividend payments	
Tax on profits	

An accurate cashflow forecast will help you:

- avoid running into financial problems
- identify potential trouble spots
- have a clear view of what lies ahead.

Good cashflow is not necessarily an indication of healthy profits. A business can be profitable but suffer from cashflow problems at the same time, and vice versa.

A business with good cashflow will have funds available to cover periods between cash going out of and coming into the business. A business might also consider having cash reserves and access to an overdraft in case of an unexpected shortfall.

Maintaining a good cashflow is particularly important in the early stages of a business when your outgoings are likely to exceed your incomings. You will need to consider monthly, quarterly, annual and one-off costs when working out your cashflow.

## Finance for established businesses

Businesses seek external funding for a variety of reasons. If your business is doing well, you might need to raise cash to fund expansion. Or perhaps you might need some additional funding to survive a rough patch.

Either way, there's no magic formula to convince a bank to lend you money or an investor to believe in you. However, there are some practical ways you can enhance

your chances of securing business finance:

- Business plans are not just for start-ups. Keep your business plan up to date to show investors that you know what you are doing and have a plan in place to realise your goals.
- Keeping your paperwork in order will make the process of applying for funding much simpler and will give potential lenders all the information they need straightaway. Banks might want to see historical data as well as recent figures.
- Use your profit and loss and cashflow forecasts to your advantage. These projections can demonstrate your ability to pay back a loan.
- Prepare periodic management accounts in order to keep track of the actual results compared to forecast.

## Checklist: 6 point business plan

### 1. Executive summary

An overview of the business you want to start and run.

### 2. The business opportunity

What you plan to sell or offer and who your customers will be.

### 3. Sales and marketing strategy

The need for your business and how you plan to sell your product or service.

### 4. The people involved

Your experience and the people you want to work with.

### 5. Operations

Where the business will be based and equipment you need.

### 6. Financial forecasts

How the business will work financially.

## We can help

We can help you put together business plans, applications for finance and forecasts for all areas of your business finances. Contact us today to talk about your business.