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Module 7 – Managing the Money

Unit 3– Financial Planning and Forecasting

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GREEN ENTREPRENEURSHIP TRAINING

Financial Planning and Forecasting

In this unit, we will provide you with an overview of the following:

- The basics of financial planning and forecasting
- Importance of cash flow planning for start-ups
- Budgeting for your business
- How to complete a budget for your business
- Setting financial goals
- Developing a financial plan

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Financial Planning & Forecasting – The Basics

◈Financial planning involves evaluating the investing and financing options available to your business.

◈It is the task of determining how an entrepreneur or a business will afford to financially sustain its goals and objectives.

◈Usually, a company creates a financial plan as part of its business planning process. The development of a financial plan is critical to a company's success, as it supports the business plan's objectives by establishing a financial model for implementation and helping the company to set financial targets.

◈To begin the process of financial planning and forecasting for your business, first you will have to develop an understanding of how the key financial planning processes of budgeting and generating cash flow statements work.

◈The future operations of a business can be forecasted through a company's budget and cash flow statement.

Cash flow Planning

- **Cash flow** is the movement of money into or out of a business

- Sales Receipts – Cash In

- Purchases & Expenses Paid – Cash Out

- Cash In less Cash Out = Available Cash

Cashflow Planning

Cash Flow Management

- Cash is the lifeblood of a business
- It is central to the operating cycle of the business because all operations generate or use cash
- It can help project future needs for cash before the needs arise thereby helping in the planning and managing of cash receipts and payments.
- Cash deficits are more problematic than cash surpluses, however if a cash deficit is only short term this will be disclosed in the cash budget
- Being able to show the cash deficit is related to seasonal increases in stocks or debtors, may persuade a bank manager to extend overdraft facilities
- If not it may require cutting stocks, renegotiating credit terms, deferring projects or capital expenditure to level out peak cash outflows

A Simple Cash Flow Statement

- The basic elements of cash flow are:
  - **Starting cash** — This is your starting balance, what you have on hand at the beginning of each month.
  - **Cash in** — This is all cash received from any source for the month, such as cash sales, paid receivables, or from sales of assets or stock.
  - **Cash out** — This is all cash paid from the business in the month. It includes all fixed and variable expenses, such as loan repayments, payment of salaries and wages, payments for raw materials.
  - **Ending cash** — This is the closing balance, what you have on hand at the end of each month.

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Budgeting for your Business

- Developing and implementing a company budget is the first and most important step to effective financial planning.
- In its simplest form, a budget is basically a forecast of planned revenues and expenses.
- Companies most of the times have to “live beyond their means” by using credit. A budget forces the company to ensure their spending is under control; that is to “live below its means”.

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Budgeting for your Business

- A budget is a plan to ensure that a business has or will have money for its future activities; to control the finances of a company and to allow the entrepreneur to make confident financial decisions.
- Developing a budget is a means for a business to plan for the future. A budget is like a roadmap to help a business get where it wants to go; it is a guide that will help a business to compare its forecasts to actual results in order to create a better understanding of the business.

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A budget typically contains two kinds of costs:

◈Fixed costs - these are costs that remain the same regardless of the sales volume or production volume. For example: rent, taxes on property, maintenance costs, office expense.

◈Variable costs – these are costs that change as the volume of business changes. They may be expressed as a percentage of sales. Inventory, raw materials and direct production labour, for example, are usually variable costs.

Sample Budget

	Budget	Actual	Under/Over
Income			
Operating Income			
Category 1	€6,000.00	€6,000.00	
Category 2	€200.00	€150.00	-€50.00
Category 3	€100.00	€100.00	
Category 4	€55.00	€20.00	-€35.00
Category 5	€500.00	€500.00	
Category 6	€300.00	€200.00	-€100.00
Category 7	€115.00	€50.00	-€65.00
Total	**€7,270.00**	**€7,020.00**	
Expenses			
Operating Expense			
Accounting & Legal	€2,250.00	€2,250.00	
Advertising	€25.00		-€25.00
Depreciation	€40.00		-€40.00
Dues & Subscriptions	€44.00		-€44.00
Insurance	€20.00		-€20.00
Interest Expense	€15.00		-€15.00
Maintenance/Improvements			
Taxes & Licenses	€29.00		-€29.00
Telephone			
Utilities			
Web Hosting & Domains			

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Setting Financial Goals

◈Setting short-term, mid-term and long-term *financial goals* is an important step toward your business becoming financially secure.

◈Annual financial planning gives you an opportunity to formally review your goals, update them (if necessary) and review your progress since last year. If you’ve never set goals before, this planning period gives you the opportunity to formulate them for the first time so that you can get – or stay – on firm financial footing.

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Setting Financial Goals

- Financial goals may involve achieving an attractive profit margin or reaching a specific tangible objective.
- They need to be specific enough so that you can determine whether or not you have achieved them

Setting Financial Goals

Examples of Financial Goals include:

- Profitability: the degree to which a business or activity yields profit or financial gain

- Profit Margins: the percentage of total revenue that exceeds operating expenses

- Specific Goals: for example buying a property instead of renting

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Developing a Financial Plan

When developing a financial plan for your green business, you should therefore include the following:

◈Start-up expenses and sources of capital – these include and owner investments, third-party investments, loans, grants and donations, or other sources of funding.

◈Income Statement – this is a financial statement that reports a company's financial performance over a specific accounting period.

◈Cash Flow Statement which is explained earlier in this unit.

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Developing a Financial Plan

◈Balance Sheet – this is also known as a "statement of financial position," and it reveals a company's assets, liabilities and owners' equity or net worth. The balance sheet, together with the income statement and cash flow statement, make up the cornerstone of any company's financial statements.

◈Assumptions – you will need to provide detailed information on how you came to reach these numbers in your forecasts. This should include references to source materials, as well as any numbers you may have used to calculate your projects. To complete this section of your financial plan, it may be advisable to enlist the help of a professional financial advisor or accountant.

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Green-entrepreneurship.online