

The following example will serve as a guide.

ABC CORPORATION

372 East Main Street
Burke, BY 10071
(207) 526-4319

John Smith, President (207) 814-0221
724 South Street
Jamestown, NY 10081

Mary Blake, Vice President (207) 764-1213
86 West Avenue
Burke, NY 10071

James Lysander, Secretary (207) 842-1648
423 Potrero Avenue
Jessup, NY 10602

Tandi Higgins, Treasurer (207) 816-0201
221 Nason Street
Adams, NY 10664

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by Corporate Officers

STATEMENT OF PURPOSE (MISSION STATEMENT)

The statement of purpose is also called the *mission statement* or *executive summary*. If your lender were to read only this information, he or she would know the name and nature of your business, its legal structure, the amount and purpose of your loan request and your plan for repayment. Use the key word approach mentioned earlier. Be concise and clear. The statement of purpose is contained on one page. Although it is positioned after the cover sheet, it is most effectively written after the plan has been completed. At that time, all the information and financial data needed are available.

If you are writing your plan for a lender, be specific about the use of funds. Support the amount requested with information such as purchase orders, estimates from suppliers, rate sheets and marketing results. Include this information in the supporting documents section. Address the question of loan repayment. You want to show the lender your company's ability to meet payments of interest as well as principal. Some investors like to see two ways out, i.e., two different sources of repayment. When you have answered the key word questions, you are ready to present that information in one or two concise paragraphs. A sample statement of purpose

ability to keep and interpret a complete set of financial records.

Insurance

Insurance is an important consideration for every business. Product liability is a major consideration, especially in certain industries. Service businesses are concerned with personal liability, insuring customers' goods while on the premises or during the transporting of those goods. If a vehicle is used for business purposes, your insurance must reflect that use. If you own your business location, you will need property insurance. Some types of businesses require bonding. Partners may want life insurance naming each other as the beneficiary. Consider the types of coverage appropriate to your business. Tell what coverage you have, why you chose it, what time period it covers and who the carrier is. Keep your insurance information current.

Security

According to the U.S. Chamber of Commerce, more than 30 percent of business failures result from employee dishonesty. This concerns not only theft of merchandise, but also theft of information.

Address the issue of security as it relates to your business. For example, if you are disposing of computer printout data, a small paper shredder may be cost effective. Anticipate problem areas in your business, identify security measures you will put into practice, tell why you chose them and what you project they will accomplish. Discuss this area with your insurance agent. By installing security devices you may be able to lower certain insurance costs along with protecting your business.

Summary

You have now covered all the areas which should be addressed in the business section. Use the key words, be thorough, anticipate any problem areas and be prepared with solutions, and analyze industry trends and be ready to project your business into the future. When you have completed the business section, you are ready to begin developing the marketing section.

MARKETING

The second major section of your business plan covers the details of your marketing plan. A good marketing plan is essential to your business development and success. Include information about the total market with emphasis on your target market. You must take the time to identify your customers and find the means to make your product or service available to them. The key here is time. It takes time to research and develop a marketing plan, but it is time well spent. Most of the information you need will be found in your public library and in the publications of the U.S. Department of Commerce, the U.S. Small Business Administration (SBA) and the U.S. Census Bureau. Remember that you need a clear understanding of who will purchase your product, who will make use of your service, why they will choose your company and how they will find out about it.

Collections on accounts receivable	_____
Miscellaneous income	
Interest income	_____
Sale of long-term assets	_____
Liabilities	
Loans (banks, finance companies, SBA, etc)	_____
Equity	
Owner investments (sole proprietor or partnership)	_____
Contributed capital (corporation)	_____
Venture capital	_____
Total Cash Available	_____

CASH TO BE PAID OUT WORKSHEET

(Cash Flowing Out of Your Business)

Start-up costs	
Business license (annual expense)	_____
DBA filing fee (one time cost)	_____
Other start-up costs	_____
_____	_____
_____	_____
_____	_____

Inventory purchases	
Cash out for items for resale or services	_____

Variable expenses (controllable)	
Advertising	_____
Freight	_____
Packaging costs	_____
Parts and supplies	_____
Sales salaries	_____
Misc. direct expenses	_____
Total direct expenses	_____

Fixed expenses (overhead)	
Insurance	_____

$$S = \frac{\$25,000}{(1-0.50)}$$

$$S = \frac{\$25,000}{(.50)}$$

$$.50S = \$25,000$$

$$S = \$50,000 \text{ (break-even point in terms of revenue exactly offset by total expenses)}$$

Graphically

A firm's sales at break-even point can be plotted as in the following break-even analysis graph.

Using the same figures as in the above formula, draw three lines in the graph: horizontal line at point representing fixed costs (25); total expenses (TC = FC + VC) line from left end of fixed cost line sloping upward to point where total (fixed plus variable) costs on vertical scale (7) meet total sales revenues on the horizontal scale (9); total revenues (sales) line from zero through a point describing total revenues (sales) on both scales (9).

The point on the graph where the total expenses line intersects the total sales revenues line is the break-even point. This business estimates that it will break even when sales volume reaches \$50,000. The triangular area below that point represents company losses. The triangular area above and to the right of the point represents potential profit.

Actual Performance Statements

Actual performance statements are those financial statements reflecting the activity of your business in the past. If you are a new business owner, you have no business history. Your financial section will end with the projected statements and a personal financial history. If you are an established business, you will include the following actual performance statements:

- Balance sheet
- Profit and loss (income) statement
- Business financial history or loan application

Balance Sheet

The *balance sheet* is a financial statement, usually prepared at the close of an accounting period, that shows the financial position of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment. By regularly preparing this statement, you will be able to identify and analyze trends in the financial strength of your business and thus implement timely modifications.

Categories

All balance sheets must contain three categories -- assets, liabilities and net worth -- that have been established by a system known as generally accepted accounting principles. The three are related in that at any given time a business's assets equal the total contributions by its creditors and owners.

Assets = Anything your business owns that has monetary value.

Liabilities = Debts owed by the business to any of its creditors.

Net worth (capital) = An amount equal to the owner's equity.

The relationship between these terms is simply illustrated in the following accounting formula:

$$\text{Assets} = \text{Liabilities} + \text{Net Worth}$$

Examined as such, it becomes apparent that if a business possesses more assets than it owes to creditors, its net worth will be a positive value. Conversely, if a business owes more money to creditors than it possesses in assets, the net worth will be a negative value.

Format

The balance sheet also must follow an accepted format. By so doing, anyone reading the balance sheet can readily interpret it.

All assets are divided under three headings:

Current assets -- Assets that can be converted into cash within one year of the date on the balance sheet.

Long-term investments -- Stocks, bonds and special savings accounts to be kept for at least one year.

Fixed assets -- The resources a business owns and does not intend for resale (land, buildings, equipment, automobiles, etc.).

Liabilities are divided into current and long-term liabilities:

Current liabilities -- Those obligations payable within one operating cycle.

Long-term liabilities -- Outstanding balance less current portion due (e.g., mortgage, vehicle).

Net worth is documented according to the legal structure of the business:

Proprietorship or partnership -- Each owner's original investment plus earnings after

2. Fixed expenses (overhead)	
a. Insurance	— — — — —
b. Licenses & permits	— — — — —
c. Office salaries	— — — — —
d. Rent	— — — — —
e. Utilities	— — — — —
f. Misc. indirect expenses	— — — — —
g.	— — — — —
TOTAL EXPENSES	— — — — —
INCOME FROM OPERATIONS (gross sales minus expenses)	— — — — —
OTHER INCOMES (interest)	— — — — —
OTHER EXPENSES (interest)	— — — — —
INCOME BEFORE TAXES	— — — — —
INCOME TAXES	— — — — —
NET INCOME	— — — — —

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INCOME STATEMENT

For the period beginning _____ and ending _____

Income

1. Net sales (gross--
 returns @ allowance) _____
2. Cost of Sales
 - a. Inventory (Jan. 1) _____
 - b. Purchases _____
 - c. Cost of goods available
 for sale [(a)+(b)] _____
 - d. Deduct inventory (Dec.31) _____
3. Gross profit on sales _____

Expenses

1. Variable expenses (control-
 lable)(selling)
 - a. Advertising _____
 - b. Freight _____
 - c. Packaging costs _____
 - d. Parts & supplies _____
 - e. Sales salaries _____
 - f. Misc. direct expenses _____