Making It All Add Up: The Financial Section of a Business Plan

> In Chapter 9 of the book *How to Really Create a Successful Business Plan,* author David E. Gumpert suggests that the financial section of a business plan is not the time to add creative flourishes, but instead to stick to a conventional approach.

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Financial issues tend to be unpopular among entrepreneurs. Some find the subject tedious. Others find it intimidating. The result is that many entrepreneurs do nothing. Finances in many businesses become the state of the checkbook each morning. If there's cash, the business is still around and if there's no cash, the business has major problems.

One of the major benefits of creating a business plan is that it forces entrepreneurs to confront their company's finances squarely. That's because a business plan isn't complete until entrepreneurs can demonstrate that all the wonderful plans concerning strategy, markets, products, and sales will actually come together to create a business that will be self-sustaining over the short term and profitable over the long term.

Note that the financial section of the business plan is done last, after you've had a chance to make your marketing, production, and selling plans. Here is where you attach precise dollar figures to those plans and determine how those figures add up in the context of several different financial statements.

The financial section of the business plan should consist of three types of standard financial statements:

1. Cash flow statement
2. Income statement (sometimes referred to as profit/loss statement)
3. Balance sheet

Before discussing these statements in more detail, a few points need to be made about financial statements in general.

- **Make them conventional.**

  It's one thing to be creative in analyzing the market or coming up with sales approaches, but the financial statements should be done according to what financial types refer to as "generally accepted accounting principles." Bankers and investors examine dozens of financial statements every day and are accustomed to seeing expenses, margins, taxes, and other items identified in their customary ways and in their customary order. The tried-and-true not only makes them feel comfortable but also enables them to review the financial state of the company quickly and easily. If they see financial statements at odds with what's customary, they are likely to be skeptical about the expertise of the entrepreneurs and the state of the business, which is not a good way to win friends and influence people.

Sophisticated investors who become interested in your business will use your financial projections to calculate the potential future value of the company. Companies tend to be valued on the basis of some combination and/or multiple of sales, profits, and asset value. Investors who are confident in the numbers they see in the financial projections will attempt to calculate a company's value in the future to determine what an investment today might lead to. If they're convinced they can get the appreciation they want, they may invest.
