

# TIPS *from* LauberCFOs

## Guide to a Simplified Annual Financial Plan

Much has been written on the topic of financial plans for business. Our goal is not to duplicate that here, but rather to provide an outline of the key points.

### Why have a financial plan:

- Identifies conditions management believes will achieve the desired results.
- Provides a roadmap to where the company wishes to go.
- When compared with actual results, benchmarks identified in a plan provide a way to determine if the business is on track or requires mid course corrections.
- The process provides a focused opportunity for management to think through what will happen in the year ahead.
- A foundation on which to base incentives to help achieve the financial goals.
- A tool for managing seasonal cash needs.
- If prepared with interactive assumptions, the plan can be used to perform if / than analysis.
- A tool to predict personnel and hiring needs.
- Use to support borrowing needs and strategies with lenders.
- The plan becomes a vehicle to communicate where a company is going both internally and externally.

### Key components of a financial plan:

- Summary of Assumptions
- Projected Balance Sheet
- Projected Income Statement
- Projected Cash-flow and Borrowing Needs
- Resulting Operating Statistics and Indicators

***Establishing solid assumptions is a key to building a credible financial plan. The assumptions required will vary by business but should include:***

- Gross Revenues - broken down by product line, customer type or other natural grouping
- Seasonal flow of revenue throughout the year
- Expected volume changes
- Price changes during the year
- Relationship between material, wages and revenues
- Anticipated wage rate changes
- Expected employment levels and hiring patterns
- Other costs that vary with revenues: commissions, shipping, shop overhead, etc.
- Cost that vary with wages: employee benefits, payroll taxes, training, and the like.
- Pay particular attention to changes in benefit coverage, rates, and employee contribution

- Operating expenses: rent, utilities, depreciation, supplies, communication, professional fees, insurance, etc.
- Interest Rates.
- Payroll tax rates.
- Income tax rates.
- Timing of Receivable collections.
- Timing of payments on accounts payable.
- Increase / decrease in inventory levels.
- Debt payments.
- Fixed asset purchases.

Laying this all out in an electronic spreadsheet so that assumptions can be changed to show what happens under different scenarios will make this a powerful tool for managing the business.

A key part of the financial plan process is to report actual results against that plan and to investigate deviations to determine if corrective action is required. It is beneficial to periodically update the plan to account for real-life changes in assumptions and business conditions

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