

TRMT 324: Financial Plan Project

Part 1 - Financial Plan Proposal	(15% of mark)
Part 2 - Financial Plan Framework	(15% of mark)
Part 3 - Complete Financial Plan	(70% of mark)

Introduction

Welcome to the world of make-believe! You are asked to create a financial plan for a new tourism or recreation business. You will use your financial plan to

- try out your business idea to determine profitability and uncover potential financial problems **before** you risk money creating this new business
- find out how much money you will need to invest to get started and provide working capital until the business starts making a profit
- set financial goals for the business
- develop a budget for the first year
- showcase your vision for the business
- persuade your investors to purchase shares in your business
- persuade the Bank to give you the mortgage and loans you need

This financial plan can be prepared individually or in pairs.

Part 1: Financial Plan Proposal

15% of financial plan mark

Your first step is to **create a Financial Plan Proposal**, including

- a written description of your business (Word document)
- the planning assumptions needed to develop your financial exhibits (Excel document)

Marking Criteria

This proposal presents your business concept in a Word document, and the planning assumptions on which you will base your financial exhibits in an Excel document. The proposal will be marked to the following criteria:

- Your word document presents a business concept that fits the requirements described in this document, and is
 - written clearly in professional third-person English
 - free of grammar and spelling errors
 - organized in a logical manner with a cover page, section headings, a brief introduction and conclusion
 - refers to exhibits in your Excel document, and is consistent with the information in your Excel document
- Your spreadsheets contain all required information described in this document and are
 - comprehensive;
 - flexible and 'linked' throughout;
 - organized and logical;
 - attractively, appropriately, and consistently formatted
 - consistent with the information in your Word document.

When I mark your proposal, I will include feedback with any recommendations for changes or additions to create a solid base for your financial plan.

General Requirements and Assumptions

- It is not necessary to do any market research for this exercise. Have fun and play with your ideas while trying to create a plausible fantasy business.
- Your fictional business must be in the tourism/recreation/hospitality industry.
- You will be incorporating your business, therefore you should choose a business name that ends with one of the following: *Inc.*, *Ltd*, *Incorporated*, or *Limited*.
- Locate the business wherever you like so long as you believe the location is realistic to give you the local or tourist traffic you need.

Your business must have several sources of revenue, including

- revenue from providing services to your customers/clients
- revenue from selling merchandise to your customers/clients
- revenue from at least one other source - use your imagination so long as it makes sense and is not illegal.

Sample business	Service revenue from	Sales revenue from	Other revenue from
Bed and breakfast	Room rentals with breakfast	Small gift shop with local art	Catering services, or residential events with a hired presenter
White water rafting	Rafting excursions	Sales of customer excursion videos	Rafting lessons
Fitness centre	Memberships	Juice bar or pro shop	Drop in classes, personal trainer consultations
Spa	Professional services: massages, facials, etc	Cosmetics, vitamins	Meditation classes, couples massage classes, or ???

- You may choose to lease or buy land and building for your facilities. If you take over an existing building, you should plan to spend a considerable amount in renovations (if buying) or leasehold improvements (if leasing). Have fun because this assignment requires you to spend a lot of money.
- You should project using the first month to get your business set up - renovations, preparation, hiring, advertising, etc. You'll open your doors the first day of the second month.
- You have received an inheritance from your great-aunt Bessie (or uncle Barry) who liked your attitude. The amount of this inheritance is explained in the Excel instructions for table 8 on the last page of this document. You will be investing this money into the business and in return the business will give you common shares in the new business (remember, a corporation is a separate legal entity from its owners). In addition, some local business people (your business associates) have become interested in your ideas and they, as a group, have expressed interest in investing 1/3 of the amount you yourself will be investing. This money is an equity investment, therefore the associates will also receive common shares in exchange for their investment. You will have 75% of the shares, the other investors will have 25%.

A: Word document - instructions

- Attractive Cover Page for your proposal
- Use report format for content.
- Contents: two to three page description of what your business is, where located, what form of business organization (remember, it's a corporation), and where it is headed in general terms. Include a description of different areas or departments of the business (i.e. pro shop, gym, juice bar, catering, residential workshops). Include a brief discussion of the competition, explaining how you will differentiate your business from other similar businesses currently in existence. Pictures can also enhance your report.

B: Excel workbook - instructions

Formatting instructions

- All your planning assumptions are to be in one workbook (in a single Excel file.)
- Do not place more tables on any one worksheet than can be printed attractively on a single page. You **must** use several worksheets for your planning assumptions.
- Change the name on the tabs of the worksheets you use for your planning tables to indicate the Table number and name (i.e. *Table 1: Capital Costs*)
- Give each worksheet in your workbook a header with your name on the left, and your business name on the right.
- Feel free to use colors and shading to enhance appearance and readability of your tables.
- **Never** enter a number in more than one location. For example, if you have calculated the total cost for exercise equipment in the **Capital Costs** table and need that number again in your

Amortization table, use a formula in the amortization table to link to the original number's location in the capital costs table (i.e. =**\$C\$18**)

- Use **View, Page Layout** to check that sheets will print readably and attractively
- Be sure to spell check your Excel sheets before submitting!

Required Planning Assumption Tables: Tables shown below are samples to help you visualize. Feel free to create your own layout so long as it presents the information clearly, attractively, and in logical order.

- **Table 1: Capital Costs** Capital assets are assets with a life longer than one year. Detail your long-lived property plant and equipment assets in a table with category subtotals (for example, your categories might be: land, building, exercise equipment, office equipment, etc). Your capital costs should include the following
 - Land and building purchase (separate value of land and building) PLUS cost of renovation to building for your purpose (include renovation costs to the building category)
 - OR
 - Details of renovation costs to a rented/leased building to convert it to your purpose (this category of capital asset is called "leasehold improvements")
 - Equipment and furniture
 - Any other long lived assets, organized by category with subtotals for each category
- **Table 2: Amortization of Capital Assets** In the first column, list each capital asset **category**. In the second column, create a formula to show the total cost for each category as calculated in table 1 (i.e. =CellLocationFromTable1). "Life in years" refers to how many years you expect your business to use the asset before disposing of it. Monthly amortization should be a formula calculated based on $(\text{Cost} - \text{residual value}) / (\text{Life in years} \times 12)$. **Note that land is never amortized.**

(Sample) Table 2: Amortization of Capital Assets

Capital Asset	Cost	Residual Value	Life In years	Monthly Amortization
Land	\$300,000		N/A	N/A
Building	400,000	\$220,000	15	\$1,000
Exercise equipment	200,000	20,000	5	3,000
Totals	\$1,000,000	\$240,000		\$4,000

- **Table 3: Supplies** - List supplies required for startup and estimate required monthly replacement supplies (remember, supplies are things you need that are not immediately used up, but will normally be used up within a year). Detail supplies in a table, with totals for startup and each month. Divide your supplies into two categories - supplies with a fixed monthly cost, and those with a variable monthly cost based on some other variable. Each item under supplies will have **either** a fixed monthly cost, or a variable cost (not both)

(Sample) Table 3: Supplies

Item	Jan, 2015 (Startup Costs)	Monthly replacements (Feb-Dec)	Variable %	% of (if variable)
Towels	\$1,500		1%	Spa treatment revenues
Cleaning/janitorial supplies	200	\$60		
... additional lines as needed				
Monthly Totals	\$xx,xxx	\$x,xxx	N/A	N/A

Cleaning supplies will be about \$60 each month. They are NOT expected to vary with revenues.

Cost of towels used in spa treatments is variable - more treatments means more towels will be used. Estimated cost of towels is 1% of revenue from spa treatments.

- **Table 4: Startup Inventory** - List assumptions for opening day inventory of goods to be resold. Itemize by category and total. You'll want enough inventory to cover your highest two months of sales.
- **Table 5: Other Expenditures** - List assumptions for startup and ongoing monthly expenses (omit amortization), including cost of goods sold (when you sell your inventory, its cost becomes cost of goods sold, and you will need to replace it). Look at a sample business income statement for ideas on what some of your other expenses might be. If an expense relies on another variable, detail the relationship in another column instead of putting in an absolute amount. Make the last two rows in your expenditures column Mortgage Payment and Term Loan Payment, but leave the amounts blank. Be sure the Monthly Totals formula includes the blank cells in these two rows.

(sample) Table 5: Expenses Requiring Cash Outlay

Expenditure	Jan, 2015 (Startup Costs)	Monthly replacements (Feb-Dec)	Variable %	% of (if variable)
Cost of goods sold, cosmetics			40%	Cosmetic sales
Spa professionals compensation			35%	Spa treatment revenue
Advertising	\$5,000	\$600		
... additional lines as needed, one line for each expense item. Do NOT include amortization				
Monthly Totals	\$xx,xxx	\$x,xxx		

You'll do a big advertising blitz in January, then plan to spend \$600 a month after that. (This is a FIXED cost)

The cosmetics you sell will cost 40% of your selling price (i.e. You will sell a \$4 item for \$10) - a VARIABLE cost

You will pay spa technicians 35% of what you charge customers for their services.- VARIABLE cost

- **Table 6: Startup Cost Summary** -This table will tell you how much money you need to start your business. Don't worry if it's a large amount; your finance plan will be designed to persuade investors to help you raise the money. List each category of cost from the tables above including any first month (January) costs, **and the** cost of both supplies and expenses for February and March. Do not type any numbers into this table - instead, link to the numbers in your other tables.

(sample) Table 6: Startup Cost Summary

Item	Cost
Land	\$300,000
Building	400,000
... line for each additional capital asset	
Supplies (startup/January)	
Supplies Feb/March	
Expenditures (startup/Jan)	
Expenditures Feb/March)	
Totals	\$x,xxx,xxx

- **Table 7: Financial Assumptions:** This table contains the financial assumptions you will use for a variety of calculations in your financial plan. You can use the assumptions given in the sample table below, or replace the numbers with your own realistic assumptions. Don't crowd the page this table is on as you may need to add other financial assumptions as you go on.

(sample) Table 7: Financial Assumptions

Item	Cost
Corporate income tax rate	26%
Mortgage interest rate	6.9%
5-year term loan rate	9%
Line of credit interest rate	10%
Minimum cash balance	\$5,000
% of sales on 30-day credit	40%
% of inventory purchases on 30 day credit	60%
Expenditures Feb/March)	
Totals	\$x,xxx,xxx

- **Table 8: Financing Sources and Cost of Capital** To have a reasonable certainty of success, you need to raise the total amount in your Startup Cost Summary before you can start the business. In addition you need a line of credit to allow you to run an overdraft if required to replace any inventory you sell during the first two months. Luckily, you already have a start.
 - Remember your Aunt Bessie? The inheritance she left you is equal to 30% of the total amount you need.
 - The friends who may invest will be investing 10% of the total amount you need if you produce a convincing financial plan
 - You hope to get a 20-year mortgage for 60% of the value of the capital assets (omit the mortgage if this amount is less than \$100,000)
 - You hope to get a 5-year term loan for the remainder of the money you need
 - You also want to negotiate a line of credit allowing you to overdraw your bank account up to the amount of your startup inventory
 - Create formulas to calculate the values for the 2nd column of a table similar to the sample below. Leave the other 4 columns blank.
 -

Table 8: Financial Sources and Cost of Capital (Sample)

Investment	Amount	Proportion	% Before Taxes	% After Taxes
Investment in share capital (majority shareholder)				
Investment in share capital (minority shareholder)				
Mortgage				
Term Loan				
Line of Credit				
Totals				

That's it for part 1!

C: Submission

Upload both the Word and the Excel document to D2L by the assignment due date.

A: Additional Assumptions

You created Excel tables 1 through 8 in your financial plan proposal. Before you prepare your pro forma financial statements, you may need to revise these tables in response to feedback you received from your proposal. You may also want to revise some of your assumptions due to your own changing vision of this business.

In addition, you will need to complete Table 8, and add two additional tables, as follows:

- **Table 9: Loan Amortization.** Complete a loan amortization table for the first 12 months of your business, for each loan or mortgage listed in table 8. (Do NOT include your line of credit loan).
- **Table 10: Sales Assumptions.** In this table, you should prepare the sales assumptions on which you will base your pro forma statements. These assumptions will vary depending on the nature of your business. See the sample financial plan exhibits on D2L (under "Assignments") for ideas.

B: Your Pro Forma Financial ExhibitsOverview

Based on information in your financial plan proposal, develop the following financial exhibits in the Excel Workbook you created when doing the proposal. When preparing these statements, you will find that your balance sheet will be easier to calculate if you plan that in your first month you will be preparing to open your doors (training staff, organizing advertizing, getting inventory in place, etc), and sales will begin in the second month.

- **Exhibit A: Sales and Expense Budget** with one column for each month, and a total column for the year.
- **Exhibit B: Cash Budget**
 - Use one column for each month and a total column for the year.
 - After the "Cash Balance at End of Month" row, add a "Line of Credit" row, followed by a final total of "Balance after line of credit." The line of credit should be calculated using an IF statement, so that the final balance is never less than \$5,000.
- **Exhibit C: Income Statement.** The rows on this statement should be the same as those in the Sales and Expense Budget, and the numbers should be equal to the total of each row in your Sales and Expense Budget.
- **Exhibit D: Statement of Retained Earnings**
- **Exhibit E: Balance Sheet.**
 - Link Cash to your ending balance before line of credit in your Cash Budget.
 - Don't forget to include accumulated amortization on capital assets
 - Calculate the inventory that you will have left (startup inventory + purchases of inventory (from Cash Budget) - Cost of Goods Sold (from income statement))
 - Calculate the amount of supplies you have left (supplies purchased from cash flow statement - supplies expense on income statement)
 - Calculate the accounts receivable still owing to you from last month's sales
 - List each category of capital asset your purchased, less it's accumulated amortization (from sales and expense budget)
 - Calculate the accounts payable you owe (=cost of goods sold from last month)
 - Get the balances of your loans from the ending balance on your loan amortization tables
 - Common Shares will be equal to the amount you invested in the business, plus any other investments of equity
 - Retained Earnings will be equal to the balance from your retained earnings account
- **Exhibit F: Scenario Analysis** with columns for *Expected Scenario* (this will be the same as your income statement, so link to the numbers on your income statement), *Pessimistic Scenario*, and *Optimistic Scenario*.

Hints for Developing a financial plan exhibits for a New Business

When creating your spreadsheet, start by reviewing your business objectives and your planning assumptions. Do they make sense? Do you want to revise them?

Express your assumptions such that a number, for example, your membership fee, can be linked wherever appropriate throughout the Exhibits. All numbers showing in exhibits should be calculated by using formulas and links. This way you can easily change the numbers and see the effect on the spreadsheet. Have all pages of the spreadsheet linked and all in one file. Re-name and add sheets as needed.

Part 3: Financial Plan Completion

- 70% of Financial Plan Mark

Suggested order for completion of exhibits

- First develop all your sales, expense, income statement, balance sheet, and cash flow accounts before you add any numbers. Think about your business objectives before you deal with any numbers.
- Look at the start up costs and assumptions you developed in tables 1 through 10. Be sure that you do not have any numbers put into more than 1 location (always link when referring to an amount that has previously been put into the workbook). Consider whether you wish to change any of your assumptions, or add to them.
- Next create a monthly sales and expense budget, with totals. Be sure that you do not type any numbers into this, but use formulas to calculate amounts based on numbers and percentages in your assumptions, and on other numbers in your sales and expense budget (you may need to add expense assumptions as you think of new expenses).
- You should now be able to create a forecasted first annual income statement and statement of retained earnings.
- Now create a monthly forecasted cash flow statement. Amortization will NOT be in this statement as it does not involve cash, but all your financing money will be there in the first month, and your purchases of capital assets and startup inventory and supplies will be included. Total the months in a final column on the right so you can have a year total cash flow. Consider all the sources of cash going into the business and all the out flow of cash from the business. In this type of business it might be helpful to do some break-even analysis. How many memberships must you sell minimally before you break even?
- Once your Income Statement, Statement of Retained Earnings, and Cash Budget are complete, you can then complete your year-end balance sheet
- Finally, create the Scenario Analysis

C: Your Financial Plan Report (Word or PDF file)

When you write your plan, address each item in the "Written Report" section of the marking guide. Be sure to paint a work-picture of your vision of the business, and be specific and clear about your planning assumptions.

Note About Your Financing Request

This report is being prepared both as a planning document, and as a tool in selling your financing request. While your business partners are very supportive, your plan will have to persuade them that your business is a good investment for their money. Include a section in your report where you specifically address their interests to persuade them that this is a good plan for them. In addition, you will be going to the bank for some kind of debt financing, and this document is your main tool in persuading the bank that you and your business are creditworthy.

Address the bank's interests and put forward reasons as to why this is a safe project for them. Take care to do a thorough discussion of the risks associated with this venture. Think about all the things which could go wrong and how you will react. Your Part of your discussion should be a scenario analysis. Your 'base case' is your most likely scenario. Also present 'pessimistic' and 'optimistic' scenarios.

Marking Guide -Financial Planning Project - 100 marks

Project proposal (Criteria - See Financial Plan Proposal Section) (15 points)

Written Report (35 points)

- Cover page
 - Table of contents, including list of Exhibits
 - Vision of what the business will be and where it is headed in general terms;
 - Business objectives - realistic and clear.
 - Planning assumptions - clear summary (see below)
 - Discussion of highlights of pro forma financial statements and cash budget
 - Discuss risk factors and how you can reduce or deal with risks,
 - Discussion of scenario analysis - most likely, pessimistic & optimistic; indicate assumptions used in forecasting scenarios (does pessimistic assumption relate to risks?)
 - Financing request and arguments for financing as previously noted (cover the 5 C's of credit)
 - Conclusion
 - Refer to exhibits throughout report
 - Clear writing and accurate grammar and spelling
- Include in planning assumption discussion, as appropriate...**
- Land and building purchase or investment in renovations and leasehold improvements, and total cost
 - Equipment to be purchased and total cost
 - Nature of services and products being sold
 - Financing assumptions
 - Amount of accounts receivable to be given and trade credit (accounts payable) received

Exhibits, clearly labeled and presented with Table/Exhibit number and title (25 points)

In addition, each sheet is examined for its appearance when printed, including readability of font size and colours, and appropriate use of landscape setup when appropriate

- Planning assumptions (including any changes needed in tables 1-7)
- Start up financing needs and cost of capital
- Loan amortization table for all loans, by month, for the first year
- Sales Assumptions
- Monthly sales and expense budgets, with a column for total for the year
- Monthly cash budget with a separate column for startup costs, rows for line of credit, and a total for the year
- Income Statement and Statement of Retained Earnings
- Balance Sheet
- Scenario Analysis

Electronic Spreadsheet(s) (25 points)

- Comprehensive;
- Flexible and 'linked' throughout;
- Include all important items;
- Organized and logical;
- Clear planning assumptions
- Attractively, appropriately, and consistently formatted

Submission

This is a project where it might help to seek the advice of fellow students. However, each person (or pair) is expected to create a unique budget and plan created by the student(s) submitting it.

Submit this project by uploading your Excel Workbook and Word or PDF document to the Financial Plan D2L dropbox by the due date/time.