SMALL BUSINESS
KNOWLEDGE AND
TRAINING PORTAL

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AMERICA'S SBDC TENNESSEE

DEVELOPING FINANCIAL PROJECTIONS

PROFITS V.S. LOSS; BALANCE SHEETS

1. Why do You Need Financial Projections?

There are several reasons you need financial projections:

- You will need to determine your need for funding. Do you have enough money to get your business started or will you need a line of credit?
- It will help you gauge the profitability or loss of your business. Is your business financially feasible, and is it on the path for growth or loss in the next year?
- It will force you to research anticipated expenses. How much will that point-of-sales system cost, or how much will rent cost in the next year?
- It will help you make strategic plans for your business. When is the right time to hire that extra person or purchase that extra piece of equipment?

2. Profit and Loss Statement

The profit and loss statement is also known as an income statement. Your profit and loss statement shows your projected revenue minus cost of goods sold minus expenses to determine if you have a net income or a net loss. This is often done month-by-month or for the entire year. First, you will want to work on your business' revenue, then the cost of goods sold. Next, you will want to estimate your expenses; this is going to be your overhead costs (rent, labor, credit card fees). Once you have done all of this work, your profit and loss will be able to show you if you have a projected income or net loss.

3. Statement of Cash Flows

The second financial document that you will want to work on in your financial projections is your statement of cash flows. The statement of cash flows takes your net profit or net loss from your profit and loss report, but it also applies any cash that you had to begin with and any other additional expenses. The statement of cash flows is extremely important because it helps you determine if you have enough cash available to float month by month.

4. Balance Sheet

The final financial statement is the balance sheet. The balance sheet tells you the balances left on any assets and liabilities that the business holds or is planning to hold. It also calculates the depreciation year after year on the assets. This way, you can always look at the balance sheet and see what the actual value left on the assets are. The balance sheet also tells you your liabilities or projected liabilities. Liabilities are loan balances or credit card balances, for example. Business owners and lenders can use the balance sheet to help determine if taking out more debt is a healthy financial decision for the business.