senbumo

Social Enterprise Business Models

Senbumo

EXCEL-TOOL N°03

Developing Financial Projections for SME

User's manual

Table of content

Purpose of this tool

This third Senbumo tool is part of a set of 3 tools designed to support social practitioners to better understand and manage Financial Statements and Financial Projections. This set of tool includes:

- EXCEL-TOOL N°01: convert Financial Statements into standard format.
- EXCEL-TOOL N°02: establish sound Financial Projections.
- EXCEL-TOOL N°03: understand and analyze Financial Statements.

These 3 tools have been designed having in mind practitioners that are not Financial Analysts or Financial Managers but who need to reach a professional level of understanding, especially when considering attracting grants, bank loans, new shareholders or simply to forecast their activities and test it's sustainability.

Financial Statements includes 3 elements:

1. A Profit & Loss (PL).
2. A Cash Flow (CF).
3. A Balance Sheet (BS).

This is not an accounting manual. It is a tool to establish Financial Projections that make sense in terms of profitability, ratios, figures, etc.

EXCEL-TOOL N°01: Understand and analyze Financial Statements

For Social Entrepreneurs and social practitioners, understanding and analyzing Financial Statements is no easy task and are source of frequent confusion. For example, a bank loan is mistaken as a source of income or an investment is considered as an operational expense. The scope of this 2nd tool is to provide basic and sound analytical skills to understand and analyze any type of Financial Statements converted in the above standard format.

EXCEL-TOOL N°02: Convert Financial Statements

Financial Statements are established in various formats depending on origin, type of company, etc. As a result, they are difficult to compare and, in some cases, to understand. The scope of this 1st tool is to convert any kind in financial statements in a standard format easy to understand. In addition, this standard format can be presented in original currency or converted in hard currency (USD/EUR/CHF).

EXCEL-TOOL N°03: Establish sound Financial Projections

To establish sound Financial Projections, a social practitioner needs to combine the 3 above elements in order to estimate the sustainability of his projections. The scope of this 3rd tool is to support any social practitioners to establish his financial projections in the same standard format. As a result, new Financial Projections can be linked to previous Financial Statements in a very user friendly way.

This set of 3 tools exists in 4 versions: English/French; MFI/SME[1].

---

[1] The tool was first developed to convert MFIs Financial Statements into a standard format. It was later modified for SMEs.

Using this third tool

In this manual, we are going to continue with the 3rd tool designed to establish Financial Projections. The EXCEL tool includes several sheets and clear explanations will be provided for each of them.

Graphic & color conventions

10	Period	1
11	Type of data	REAL
12	Start date	2012-01-01
13	End date	2012-12-31
14	Duration (months)	12
15	Label (linked)	déc2012

Cells with light yellow are cells the User can freely modify.

Cells with blue numbers are cells that contain an EXCEL formula. These cells <u>must not</u> be modified by the User.

Inputting data

Users may either ENTER data (i.e. type data in cell) or SELECT data (i.e. in a drop list).

Time scope

This tool can establish Financial Projections up to 60 months (5 years) maximum.

Type of enterprise

This 2nd tool can be used for not-for-profit, for-profit, cooperatives, NGOs, associations.

The word *enterprise* will be used over this manual as a generic word.

Monthly, annual projections & dashboard

The Projections are established on a monthly basis. An annual RECAP is available as well as a one page Dashboard.

Sheet parameters

	A	B	C
1	Country	Ghana	
2	Currency	EUR	
3	Date of data input	2016-01-31	
4			
5	Name of institution	Tapoa SRL	
6	First year of operations	2009	
7	Legal form	Not-for-profit	
8	Sector	Agro-processing	
9			
10	Opening balance sheet	YES	
11			
12	First month (01.mm.yyyy)	2016-01-01	2016
13	Duration (months #)	60	max = 60 months
14	Last month	2020-12-01	

Cells B1:B8: enter basic data about the enterprise. In sheet *list*, User can input a custom currency in cell F5.

Cells B10 – Opening balance sheet: if the financial projections are being established in the following of previous Financial Statements, select YES in the drop list. In the case of a start-up, select NO.

Cells B12 – First month: enter the date of the first month of the Financial Projections.

Cell C12: EXCEL calculates the year of first month.

Cells B13: enter the duration in months of your Financial Projections. The maximum value is 60 months.

Cell B14: EXCEL calculates the last month of your financial projections.

Move to next sheet named Fixed-assets.

Sheet Fixed-assets

	A	B	C	D	E	F	G	H
1	Tapoa SRL | Fixed Assets (EUR)							
2								
3	Sales of fixed assets							5'000
4								
5								
6		Monthly Fixed Assets investments		50'000	20'000	20'000	10'000	0
7		Monthly Fixed Assets investments (cumul.)		50'000	70'000	90'000	100'000	95'000
8		Total monthly amortization		-208	-542	-542	-708	-708
9		Total monthly amortization (cumul.)		-208	-750	-1'292	-2'000	-2'708
10		Total net value		49'792	69'250	88'708	98'000	92'292
11								
14	N	Investments	Amortization	JAN-2016	FEB-2016	MAR-2016	APR-2016	MAY-2016
18	1	Land	50'000	50'000				
19		20 years	240	50'000	50'000	50'000	50'000	50'000
20			208	208	208	208	208	208
21				208	417	625	833	1'042
22		Net value		49'792	49'583	49'375	49'167	48'958
23								
27	2	Construction	40'000		20'000	20'000		
28		10 years	120	0	20'000	40'000	40'000	40'000
29			333	0	333	333	333	333
30				0	333	667	1'000	1'333
31		Net value		0	19'667	39'333	39'000	38'667
32								
36	3	Equipment	10'000				10'000	
37		5 years	60	0	0	0	10'000	10'000
38			167	0	0	0	167	167
39				0	0	0	167	333
40		Net value		0	0	0	9'833	9'667

The first with this tool is to determine the total amount of fixed assets the enterprise will need to start its activities. In the above example, the enterprise plans to:

- Purchase in JAN-2016 a land plot for a total value of EUR 50'000.

- Construct a building in FEB-2016/MAR-2016 for a total value of 2x EUR 20'000.

- Purchase equipment in APR-2016 for a total value of EUR 10'000.

- Sell some old fixed assets in JUN-2016 for a total value of EUR 5'000 (cf. cell I3).

Cell B19/B28/B37: select in the drop lists the forecasted amortization period.

The tool can consolidated up to 10 different fixed assets investments.

Line 10: EXCEL calculates the total net value of fixed assets.

Sheet Proj-60-months

Production and Profit & Loss

	A	B	C	D	E	F	G	H	I
1	Tapoa SRL | Monthly financial projections (EUR)								
2	PRODUCTION & SALES	Units			JAN-2016	FEB-2016	MAR-2016	APR-2016	MAY-2016
3	Monthly stove production	(#)			5	5	10	10	25
4									
5									
6									
7									
8	PROFIT & LOSS				JAN-2016	FEB-2016	MAR-2016	APR-2016	MAY-2016
10	Sales income 1				500	500	1'000	1'000	2'500
11	Sales income 2								
12	Sales income 3								
13	S/total sales income				500	500	1'000	1'000	2'500
14	Input expense 1								
15	Input expense 2								
16	Input expense 3								
17	S/total input expenses								
18	GROWTH MARGIN				500	500	1'000	1'000	2'500
19	Personnel expenses				1'000	1'000	1'000	1'000	1'000
20	Admin expenses				500	500	500	500	500
21	Financial expenses				0	0	400	400	400
22	Depreciation				208	542	542	708	708
23	TOTAL OPERATIONAL EXPENSES				1'708	2'042	2'442	2'608	2'608
24	OPERATIONAL RESULT				-1'208	-1'542	-1'442	-1'608	-108
25	Non operational incomes								
26	Non operational expenses								
27	RESULT BEFORE TAX				-1'208	-1'542	-1'442	-1'608	-108
28	Profit tax								
29	Dividends								
30	PROFIT OF THE PERIOD				-1'208	-1'542	-1'442	-1'608	-108
31	Retained profit				-1'208	-2'750	-4'192	-5'800	-5'908

Lines 3-7: it is up to the User to express on a monthly basis the output of his production and/or services. This why these first lines are in yellow: the User has to calculate and enter himself the production figures.

Line 10-12: as for production outputs, the User enter here the financial value of his monthly sales. See section *customizing the tool* to learn how to add more *sales income* lines.

Line 14-16: as for sales, the user enters here the financial value of his monthly purchases.

Line 18: EXCEL calculates the growth margin of the enterprise.

Line 19-22: the breakdown of operational expenses has been restricted to the minimum. Nevertheless, the User can insert additional lines to show more diversified *personnel expenses* structure (i.e. General Manager, Accountant, staff1, staff2, etc.).

Line 21-22: EXCEL calculates financial expenses and depreciation see below.

Line 24: financial expenses and depreciation have been included in operational expenses as we believe that paying interests or depreciation of fixed assets is part of operations. Therefore, in this model, OPERATIONAL RESULT is not equivalent to EBITDA[2].

Line 25-26 + 28-29: the user can enter non-operational incomes and/or expenses as well as profit tax and/or dividends (in case of for-profit enterprise) if necessary.

The Cash-Flow

	A	B	C	D	E	F	G	H	I
1	**Tapoa SRL | Monthly financial projections (EUR)**								
33	**CASH FLOW**				**JAN-2016**	**FEB-2016**	**MAR-2016**	**APR-2016**	**MAY-2016**
34	**Cash begining of period**				0	29'000	8'000	27'100	16'200
35	Cash Flow from operating activities								
36	CASH IN/OUT profit of the period (without depr.)				-1'000	-1'000	-900	-900	600
37									
38	Cash flow from investing activities								
39	CASH OUT Investments (purchase of fixed assets)				-50'000	-20'000	-20'000	-10'000	
40	CASH IN Investments (sale of fixed assets)								5'000
41									
42	Cash flow from financing activities								
43	CASH IN Financing (equity & loans)				80'000		40'000		
44	CASH OUT Financing (equity & loans)			Min CF value					
45	**Cash end of period**			8'000	29'000	8'000	27'100	16'200	21'800

The second part of the sheet Proj-60-months is the Cash Flow.

Line 34 – Cash beginning of period: EXCEL indicates the total amount of available cash at the beginning of the month. Note that value in cell F34 is equal to value in cell E45.

Cell E34: in the case of a startup, the cash at the beginning of the period is equal to zero (i.e. first donors/investors must provide some financial resources).

Line 36 - CASH IN/OUT profit of the period (without depr.): this line simply copies the PROFIT OF THE PERIOD (cf. line 30) but without including the amount of monthly depreciation as there is no real cash movement regarding the calculation of depreciation.

Line 38-40 - Cash flow from investing activities: EXCEL retrieves the data related from investing activities from the sheet *Fixed-assets*.

---

[2] EBITDA: Earnings before interest, taxes, depreciation, and amortization.

Line 42-44 - Cash flow from financing activities: EXCEL retrieves the data related to equity investments and/or bank loans from line below.

Line 45 - Cash end of period: EXCEL calculates the cash available at the end of the period.

Cell D45: EXCEL calculates the minimum monthly cash amount of the 60 months period.

Warning! Value in cell D45 must always be above or equal to zero.

The Balance Sheet

	A	B	C	D	E	F	G	H	I
1	**Tapoa SRL | Monthly financial projections (EUR)**								
47	**Balance sheet**				**JAN-2016**	**FEB-2016**	**MAR-2016**	**APR-2016**	**MAY-2016**
48	ASSETS								
49	Cash & bank				29'000	8'000	27'100	16'200	21'800
50	ST receivable								
51	Stock								
52	**TOTAL ST ASSETS**				29'000	8'000	27'100	16'200	21'800
53	LT receivable								
54	Fixed assets				50'000	70'000	90'000	100'000	95'000
55	Amortization				-208	-750	-1'292	-2'000	-2'708
56	**NET FIXED ASSETS**				49'792	69'250	88'708	98'000	92'292
57	**TOTAL LT ASSETS**				49'792	69'250	88'708	98'000	92'292
58	**TOTAL ASSETS**				78'792	77'250	115'808	114'200	114'092
59									
60	**EQUITY & LIABILITIES**								
61	Suppliers								
62	Bank loans ST						40'000	40'000	40'000
63	Bank loans LT								
64	**TOTAL LIABILITIES**				0	0	40'000	40'000	40'000
65									
66	Profit of the period			Previous year	-1'208	-1'542	-1'442	-1'608	-108
67	Retained earnings				-1'208	-2'750	-4'192	-5'800	-5'908
68	Reserves								
69	Equity				80'000	80'000	80'000	80'000	80'000
70	**TOTAL EQUITY**				78'792	77'250	75'808	74'200	74'092
71	**TOTAL EQUITY & LIABILITY**				78'792	77'250	115'808	114'200	114'092
72	*Difference*				*0*	*0*	*0*	*0*	*0*

The main accounts of the balance sheet (i.e cash, fixed assets, liabilities and equity) are calculated by EXCEL. A few lines (lines 50, 51, 53, 61 & 68) can be adjusted manually in order to reach a zero difference on line 72.

Line 51 – Stock: depending on the activity, this line could need more development as the amount of stock can have an important impact on financial liabilities. Nevertheless, it doesn't directly impact the business model of the company.

Warning! The purpose of this tool is to help the User evaluate if his Financial Projections are sound, balanced, etc. It is not an accounting tool.

Short & Long term financing

	A	B	C	D	E	F	G	H	I
1	Tapoa SRL | Monthly financial projections (EUR)								
74	FINANCING				JAN-2016	FEB-2016	MAR-2016	APR-2016	MAY-2016
75	Bank A-ST								
76	Loans disbursed						40'000		
77	Cumulated						40'000	40'000	40'000
78	Loans repayments (negative value)								
79	Cumulated								
80	Loans outstanding				0	0	40'000	40'000	40'000
81	Annual interest rate			12.00%	0.01	0.01	0.01	0.01	0.01
82	Monthly interest						400	400	400
83									
84	Bank B-LT								
85	Loans disbursed								
86	Cumulated								
87	Loans repayments (negative value)								
88	Cumulated								
89	Loans outstanding				0	0	0	0	0
90	Annual interest rate								
91	Monthly interest								

The tool offers two sources for external borrowings. On for ST loans and one for LT loans.

Line 76: User enters disbursed loan amount. There can be several disbursements but all will bear the same interest rate.

Line 78: User enters loan repayment instalments (with a negative value). By *playing* with the repayment amount and when the repayment takes place, the User can immediately see the impact on his Cash Flow on line 45.

Cell D81: User enters the annual interest rate of the loan.

Equity

	A	B	C	D	E	F	G	H	I
1	Tapoa SRL | Monthly financial projections (EUR)								
93	Equity				JAN-2016	FEB-2016	MAR-2016	APR-2016	MAY-2016
94	Shareholder 1	John	56.3%	45'000	45'000				
95	Shareholder 2	Maria	31.3%	25'000	25'000				
96	Shareholder 3	Capital Invest	12.5%	10'000	10'000				
97	Shareholder 4		0.0%	0					
98	Shareholder 5		0.0%	0					
99	Shareholder 6		0.0%	0					
100	Shareholder 7		0.0%	0					
101	Shareholder 8		0.0%	0					
102	Shareholder 9		0.0%	0					
103	Shareholder 10		0.0%	0					
104	Total			80'000	80'000	0	0	0	0
105	Cumulated				80'000	80'000	80'000	80'000	80'000

The equity section can be used for both not-for-profit / for-profit enterprise. The User simply enters the amount of additional equity in the appropriate column. In the case of dividend payments, User enters a negative value.

Ratios

|	A	B	C	D	E	F	G	H	I
1	**Tapoa SRL | Monthly financial projections (EUR)**								
107	**RATIOS**				**JAN-2016**	**FEB-2016**	**MAR-2016**	**APR-2016**	**MAY-2(**
108	Liabilities / equity						0.5	0.5	
109	Operational expenses / incomes				3.4	4.1	2.4	2.6	
110	Cash / operational expenses				17.0	3.9	11.1	6.2	

Sheet Proj-5-years

This sheet presents the monthly Financial projections on a yearly basis with the same page structure.

	A	B	C	D	E	F	G	H	I
1	**Tapoa SRL | Monthly financial projections (CHF)**								
2	**PRODUCTION & SALES**	**Units**			**2016**	**2017**	**2018**	**2019**	**2020**
3	Monthly stove production	(#)			510				
4	0	0							
5	0	0							
6	0	0							
7	0	0							
8	**PROFIT & LOSS**				**2016**	**2017**	**2018**	**2019**	**2020**
9	**PROFIT & LOSS**								
10	Sales income 1				51'000				
11	Sales income 2								
12	Sales income 3								
13	S/total sales income				51'000				
14	Input expense 1								
15	Input expense 2								
16	Input expense 3								
17	S/total input expenses								
18	**GROWTH MARGIN**				51'000	0	0	0	0
19	Personnel expenses				12'000				
20	Admin expenses				6'000				
21	Financial expenses				3'860	4'560	4'560	4'560	4'560
22	Depreciation				7'667	8'500	8'500	8'500	8'500
23	**TOTAL OPERATIONAL EXPENSES**				29'527	13'060	13'060	13'060	13'060
24	**OPERATIONAL RESULT**				21'473	-13'060	-13'060	-13'060	-13'060
25	Non operational incomes								
26	Non operational expenses								
27	**RESULT BEFORE TAX**				21'473	-13'060	-13'060	-13'060	-13'060
28	Profit tax								
29	Dividends								
30	**PROFIT OF THE PERIOD**				21'473	-13'060	-13'060	-13'060	-13'060
31	*Retained profit*				*21'473*	*8'413*	*-4'647*	*-17'707*	*-30'767*

Sheet DASHBOARD

The dashboard sheet presents a one page consolidated report including charts.
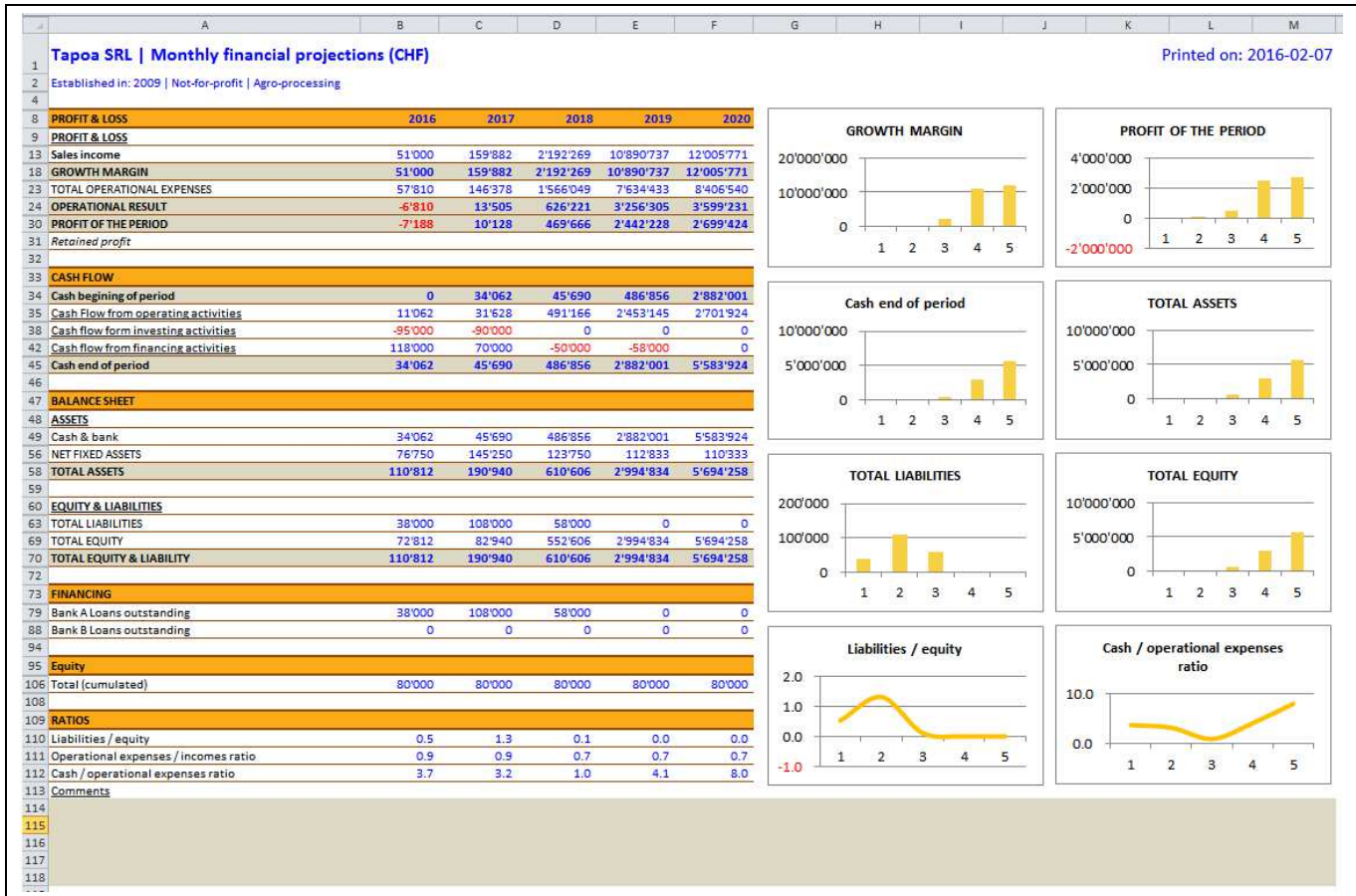
Conclusion

This simple tool can support establishing sound Financial Projections for small scale project (assets < USD 10M).

The main goal is also to support the User to clearly understand the relationship between the Profit & Loss, the Cash Flow and the Balance Sheet.

Finally, the dashboard sheet presents a clear consolidated picture of the enterprise over a 5 years' time frame which can be useful to include in a more general presentation.