The bank account required for the business is one that:

- has mobile phone/internet banking access
- pays interest on sums below A$5000
- provides monthly bank statements (for reconciliation with accounts)
- has credit card and electronic funds transfer facilities.

For security reasons, a minimum of two directors will be required to verify all accounts.

(c) *Distribution of profits*
Profits in Year 1 will be retained in the business. In future years, annual net profit after tax will be divided in the following manner: three-quarters will be paid to the shareholders at the end of the financial year in accordance with their shareholdings, and the remaining quarter will be kept as retained earnings. The retained capital will be used for reinvestment in the business, mainly to upgrade equipment and to meet unforeseen contingencies. If the business is highly profitable, some of the retained capital may eventually (in two to three years' time) be used to help fund the purchase of permanent business premises.

(d) *Goods and services tax*
No GST figures are shown in any of the financial documents; in other words, all forecasts are net of tax.

(e) *Loans*
The firm has no current loans or debts.

5.2 Analysis of financial forecasts

(a) The owners have decided to use net profit margin and projected market and earnings-based valuations as the main indicators of the firm's performance. Based on the projections made in this document, it is estimated for Year 1 that this will be:

$$\text{Net profit margin\%} = \frac{\text{Net profit before tax}}{\text{Sales turnover}} = \frac{\$2330}{\$103\,750} = 2.24\%$$

This figure is relatively low and below industry norms, according to a recent study by Jones (2012), but is not unusual for a business in its first year of trading. We expect margins to increase substantially in Year 2 and Year 3.

In future years, as more data are gathered, it will also be possible to use other ratios to help analyse the financial performance of the firm.

(b) *Break-even point*
Assuming that cost of goods sold is the only variable cost, the contribution margin is equal to the projected gross profit margin (94%).

$$\text{Projected fixed costs} = \$95\,280$$

$$\begin{aligned}\text{Break-even point in dollars} &= \frac{\text{Fixed costs}}{\text{Contribution margin}}\\ &= \frac{\$95\,280}{0.94}\\ &= \$101\,362\end{aligned}$$

(c) Applying market-based and earnings-based valuations to a start-up

While we are in the start-up phase, we do not expect our returns to be competitive. However, by benchmarking against industry norms we are ensuring we are focused on what we need to do to be competitive. We understand through personal enquiry with Sydney West-Side Small Business Professional Brokers Pty Ltd that several businesses similar to ours have been offered for sale at an average industry multiplier of 0.8 times annual turnover this year in the greater Sydney area. Using this benchmark, our business may theoretically be worth as much as \$85 880 at the end of the first year.

Market based selling price (revenue multiplier) = \$107 350 (Sales) × 0.80 (multiplier) = \$85 880.

In the medium term, revenue multipliers may be a quick, easy and useful measure. However, during the start-up phase a better measure of performance may be to calculate a price that reflects return on investment (ROI). The ROI expected in this industry is estimated (by comparison with three other similar businesses for sale) to be in the order of 75% before allowing the manager's salary (Jessie). Using this information to calculate the theoretical sale price suggests a much lower outcome.

Earnings based selling price (ROI) = \$2330/0.75 = \$3106.67

This means that in year one, the business is worth as little as \$3106.67, effectively making it not at all saleable. Of course, both of these valuation methods have problems when applied to the first year of a start-up business, so how will we account for this apparent problem of newness?

Over the course of the first few years we would expect the ROI-derived selling price to increase to at least on par with the revenue multiplier method once the businesses start-up costs have washed through the accounts. In today's dollar terms, if the turnover number was not increased that would mean a target net profit of \$64 410 is required.

\$85 880 (required sale price) × 0.75 (expected ROI) = \$64 410 net profit

When we exceed that net profit target (based on turnover of \$107350) then we will be doing better than the market would require in terms of net margins. Projecting out our profits beyond the first year could be done to predict when this might occur, but we do not feel this is credible given our lack of data as a start-up. In future years we will certainly look to understand the trends and forward-plan to a more strategic time frame.

5.2.1 Sales mix forecast (All figures are in Australian dollars, A$)

Blueprints Business Planning Pty Ltd
SALES MIX FORECAST
for the period July 2014 to June 2015

	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	TOTAL
Item: *Business planning*													
Number sold	2	2	3	3	4	0	1	3	4	5	5	5	37
Selling price	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	$2 000	
Total sales income	4 000	4 000	6 000	6 000	8 000	0	2 000	6 000	8 000	10 000	10 000	10 000	$74 000
Cost of goods sold per item	0	0	0	0	0	0	0	0	0	0	0	0	
Total cost of goods sold	0	0	0	0	0	0	0	0	0	0	0	0	0
Item: *Training courses*													
Numbers sold (hours delivered)	15	15	15	20	20	10	15	20	25	25	25	20	225
Selling price	$120	$120	$120	$120	$120	$120	$120	$120	$120	$120	$120	$120	
Total sales income	1 800	1 800	1 800	2 400	2 400	1 200	1 800	2 400	3 000	3 000	3 000	2 400	$27 000
Cost of goods sold per item	20	20	20	20	20	20	20	20	20	20	20	20	
Total cost of goods sold	300	300	300	400	400	200	300	400	500	500	500	400	4 500
Item: Supplementary books													
Number sold	3	3	3	5	5	2	5	5	6	6	6	6	55
Selling price	$50	$50	$50	$50	$50	$50	$0	$50	$50	$50	$50	$50	
Total sales income	150	150	150	250	250	100	250	250	300	300	300	300	$2 750
Cost of goods sold per item	30	30	30	30	30	30	30	30	30	30	30	30	
Total cost of goods sold	90	90	90	150	150	60	150	150	180	180	180	180	1650
Total sales revenue	$5 950	$5 950	$7 950	$8 650	$10 650	$1 300	$4 050	$8 650	$11 300	$13 300	$13 300	*$12 700*	*$103 750*
Total cost of goods sold	$390	$390	$390	$550	$550	$260	$450	$550	*$680*	*$680*	*$680*	*$580*	*$6 150*

5.2.2 Cash flow forecast (All figures are in Australian dollars, A$)

Blueprints Business Planning Pty Ltd
CASH FLOW FORECAST
for the period July 2014 to June 2015

	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	TOTAL
Income													
Sales revenue	$5 950	$5 950	$7 950	$8 650	$10 650	$1 300	$4 050	$8 650	$11 300	$13 300	$13 300	$12 700	$103 750
Capital	10 000												10 000
Sundry													
Total income	15 950	5 950	7 950	8 650	10 650	1 300	4 050	8 650	11 300	13 300	13 300	12 700	113 750
Expenses													
Cost of goods sold	390	390	390	550	550	260	450	550	680	680	680	580	6 150
Accounting/legal services	1 500		800					200					2 500
Advertising	2 000	100	100	100	180	100	100	100	100	100	100	100	3 180
Bank fees	15	15	15	15	15	15	15	15	15	15	15	15	180
Equipment purchases	11 500												11 500
Equipment leases													0
Insurance	2 500												2 500
Light & power													0
Loan repayments													0
Motor vehicle – fuel	50	50	50	50	50	50	50	50	50	50	50	50	600
Motor vehicle – other costs													0
Petty cash	25	25	25	25	25	25	25	25	25	25	25	25	300

5.2.2 *continued*

Blueprints Business Planning Pty Ltd
CASH FLOW FORECAST
for the period July 2014 to June 2015

	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	TOTAL
Postage, printing & stationery	400												400
Rent													0
Repairs & maintenance	100			100			100			100			400
Staff casual wages	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	2 000	24 000
Staff superannuation												6 000	6 000
Staff director's wages	3 400	3 340	4 700	3 220	3 340	3 400	3 220	3 340	3 400	3 220	3 340	3 400	41 320
Telephone	50	50	50	50	50	50	50	50	50	50	50	50	600
Other	100	50	50	50	50	50	50	50	50	50	50	50	650
Total expenses	24 030	6 020	8 180	6 160	6 260	5 950	6 060	6 380	6 370	6 290	6 310	12 270	100 280
Cash surplus/(deficit)	$(8 080)	$(70)	$(230)	$2 490	$4 390	$(4 650)	$(2 010)	$2 270	$4 930	$7 010	$6 990	$430	$13 470
Bank balance													
Start of month	0	(8 080)	(8 150)	(8 380)	(5 890)	(1 500)	(6 150)	(8 160)	*(5 890)*	*(960)*	*6 050*	*13 040*	
End of month	(8 080)	(8 150)	(8 380)	(5 890)	(1 500)	(6 150)	(8 160)	*(5 890)*	*(960)*	*6 050*	*13 040*	*13 470*	

5.2.3 Projected profit and loss statement (All figures are in Australian dollars, A$)

Blueprints Business Planning Pty Ltd
PROJECTED PROFIT AND LOSS STATEMENT
for the period July 2014 to June 2015

Revenues	
Sales revenue	103 750
Less: Cost of goods sold	6 150
Gross profit	97 600
Expenses	
Accounting/legal services	2 500
Advertising	3 180
Bank fees	180
Equipment purchases	11 500
Equipment leases	0
Insurance	2 500
Light & power	0
Loan repayments	0
Motor vehicle – fuel	600
Motor vehicle – other costs	0
Petty cash	300
Postage, printing & stationery	400
Rent	0
Repairs & maintenance	400
Staff wages	24 000
Staff superannuation	6 000
Staff director's wages	41 320
Telephone	600
Other	650
Depreciation	1 150
Total expenses	95 280
Net profit	$2 320

5.2.4 Owner's personal expenses (All figures are in Australian dollars, A$)

Blueprints Business Planning Pty Ltd
OWNER'S PERSONAL EXPENSES: JESSIE JONES
for the period July 2014 to June 2015

	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	TOTAL
Monthly commitments													
Food	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$400	$4 800
Health	100	100	100	100	100	100	100	100	100	100	100	100	1 200
Clothes	80		80			80			80			80	400
Entertainment	200	200	200	200	200	200	200	200	200	200	200	200	2 400
Transport	120	120	120	120	120	120	120	120	120	120	120	120	1 440
Education													0
House payments	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	16 800
Car payments													0
Other loan repayments													0
Telephone			100			100			100			100	400
Electricity & gas		120			120			120			120		480
Rates			1300										1 300
Personal income tax	900	900	900	900	900	900	900	900	900	900	900	900	10 800
Credit cards	100												100
Other	100	100	100	100	100	100	100	100	100	100	100	100	1 200
Monthly drawings needed*	$3 400	$3 340	$4 700	$3 220	$3 340	$3 400	$3 220	$3 340	$3 400	$3 220	$3 340	$3 400	$41 320

*Shown as 'Staff — director's wages' in cash flow forecast

5.2.5 Owner's personal assets and liabilities (All figures are in Australian dollars, A$)

Blueprints Business Planning Pty Ltd
OWNER'S PERSONAL ASSETS AND LIABILITIES: JESSIE JONES
as at 1 July 2014

Assets	
Own house (market value)	$700 000
Other real estate (market value)	0
Motor vehicle (insured value)	25 000
Cash (on hand or in bank)	6 000
Superannuation	84 000
Furniture & personal effects (insured value)	25 000
Other (list if appropriate)	0
Total assets	840 000
Liabilities	
Outstanding mortgage (on home)	201 500
Outstanding mortgage (on other real estate)	0
Personal loans	0
Credit cards	100
Current bills	0
Other debts	600
Total liabilities	202 200
Personal worth (total assets minus total liabilities)	$637 800

Section 6: Implementation timetable, 2014–15

2014	
July	Apply for home-based business licence
	Open business bank account
	Prepare letterheads, business cards
	Send copy of business plan to accountant and lawyer (for their information)
	Obtain all relevant insurance policies
	Start direct mail campaign
August	Review contents of website
	Start compiling operations manual
September	Visit accountant re: progress to date, recordkeeping
	Enquire re: computing equipment required
	Enquire with Institute of Management Consultants (Australia) re: membership
October	Prepare promotional brochure
November	Print promotional brochure
December	
2015	
January	Staff/directors' retreat to review progress to date
	Review business plan
	Review effectiveness of marketing plan and analyse source of sales to date
	Review operations manual
February	Attend Small Business Development Corporation course on managing business growth
March	Implement benchmarking of advertising by outside adviser
April	Update website
May	Visit accountant re: end-of-financial-year returns
June	Write business plan for 2015–16
	Review and write new marketing plan

Section 7: Appendix – Research reference sources

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