

# Quick Start for Financial Plan for a Business

How to use your Custom Excel Workbook

## Quick Start Instructions

Here are simple, step by step instructions to get your Financial Plan for a Business working for you as quickly as possible. Just follow the steps below in order and you'll be on your way.<sup>1</sup>

**A Note about Input Cells:** Enter input data only in shaded blue cells. These input cells are found mostly on the 'Inputs' worksheet and also on the 'Labels' worksheet. Some blue input cells contain Excel formulas that copy data from adjacent input cells. (For example, if you enter data in the first period, the model will usually copy it to the other time periods to the right.) This feature is a convenience for those inputs that sometimes have repeated values. You can overwrite any formula in a blue input cell; they are just there to provide starting data to get you going quickly.

### Step 1: Enter Names of Receipt and Disbursement Accounts

Select the Labels worksheet.

Edit the names of items in the bottom section starting around row 280 or 320. You can edit names of products, selling locations, types of contract revenue, sales lead quality classes, departments, department-specific expense accounts, marketing programs, general & admin expense accounts, direct labor, job levels, tagged assets, untagged asset types, leases, and bonds. (These may already be correct from the customization process. If you want to increase the numbers of sub-projects or other items in the model, you must return to the ModelSheet website and customize a new spreadsheet.)

Check the start date of the model at the top of worksheet 'Labels' and change it if necessary.

### Step 2: Enter Sales Input Data

Select the Inputs worksheet, and go to the section "Sales Input Data".

1. If your model includes the sales funnel feature, go to the section "Sales Funnel".
  - Enter the number of initial sales leads in the funnel. This data is segmented by product, selling location, and sales lead quality class.
  - Enter the initial order backlog by product and selling location. (Order backlog consists of orders that are complete but have not yet been fulfilled.)
  - Enter the percentage of sales leads that are promoted to the next-most-qualified lead class on an annual basis. This data is segmented by product, selling location, lead qualification class, and time period.
  - Enter the percentage of sales leads that expire on an annual basis. This data is segmented by product, selling location, lead qualification class, and time period.

(You can remind yourself what each variable does by checking out the Excel comment. To see the comment, hover the mouse over the cell that contains the table name with the small red triangle in the upper right corner.)

2. Enter sales units, segmented by product, sales location, and time period. You can enter the data in either of two ways.
  - Method 1: enter sales units in the first time period and growth rates by time period.

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<sup>1</sup> You can find more explanation of how the model works under the heading Financial Plan for a Business Explained in a NutShell below.

- or
- Method2 : Enter values for sales units directly in the table for Sales Units, and overwrite the formulas in those cells that use growth rates to compute sales units for each time period. If your model includes sale scenarios, then enter sales units for all the scenarios, and enter a scenario number (1,2, or 3) near the top of the sheet.
3. If your model includes product support contracts:
    - Enter the percentage of product sales that include new product support contracts.
    - Enter the percentage of existing support contracts that renew each year.
    - If your model permits product support contracts of adjustable durations, then enter the duration of support contracts for each product, expressed in years.
  4. If your model includes revenue adjustments (such as sales returns), go to the section "Revenue Adjustments".
    - Enter revenue adjustment percentage by product, selling location, and time period, expressed as a percentage of gross revenue (before deducting adjustments).
    - Enter the expense incurred by revenue adjustments for each product, as a percentage of revenue adjustments.
  5. Enter price data
    - Enter list prices and price discount percentages by product and time period.
    - If your model includes product support contracts, then
      - Enter support list prices as a percentage of product prices.
      - Enter average discounts from list price for sales of product support contracts.
      - Specify the number of time periods (using the basic time grain of the model) between payments. The options below enable you to specify a support payment schedule.
        - If you want only one payment, enter the number of time periods in the model.
        - If you want one payment per time period in the service contract (excluding the first or last time period – see below – then enter 1.
        - The value you specify must be between 1 and 12 inclusive.
        - Example: if your support term in years is 2 and your time grain in quarters, then enter 8 to get one payment at the beginning or end; 1 to get seven payments, and 4 to get two payments.
      - Specify whether the first payment is due when the order is sold (TRUE) or later (FALSE). This choice affects your cash flow.
  6. If your model includes the contract revenue feature, go to the section "Contract Revenue". (This feature is different from product support contracts.)
    - Enter the cash revenue for each type of contract, selling location, and time period.
    - Enter the initial liability for contract revenue at the start of model time.
    - Enter the term (duration in years) of each type of contract revenue. (This is the number of years over which contract orders are recognized as revenue.)
  7. If your model includes the installed base feature, go to the section "Installed Base".
    - Enter the weight of each product in the installed base (some products can count more than others).
    - Enter product life (the number of years for which a new product is counted as part of the current active installed base).
    - Enter the initial installed base of products at the start of model time.
    - Enter the initial installed base of support contracts at the start of model time.

### Step 3: Enter Cost of Sales Input Data

Select the Inputs worksheet, and go to section "Cost of Goods and Services".

1. Enter the direct material cost per unit of product.
  - If your model includes direct material types, then:
    - If you model includes production learning effects, then enter direct material units per product unit for each material type, product, but only in the first time period. (The production learning model will compute the number of units in later time periods.)
    - If you model includes production learning effects, then enter the direct material units per product unit for each material type, product, in each time period.
    - Enter the cost of one unit of direct material for each direct material type, in each time period.
2. Enter direct labor cost per unit of product in each time period
  - If your model has the production learning curve feature, then enter data only in the first time period, and let the production learning curve determine costs for future times.
  - If your model has the direct labor detail feature (which tracks labor hours per unit and cost per hour), then do not enter labor cost per unit in this table, unless you want to override the values computed by the model.
3. If your model includes the Direct Labor Hours detail feature for product production:
  - If your model has the production learning curve feature, then enter data only in the first time period, and let the production learning curve determine costs for future times.
  - Enter the direct labor hours per product unit, and the direct labor cost per hour.
4. If your model includes the Direct Labor Headcount feature for product production:
  - Enter the direct labor count cutover for product production – that is, the number of time periods for which you explicitly specify direct labor headcount, and after which direct labor headcount is determined by workload and target hours per direct labor person.
  - Enter the direct labor count to be used before the direct labor cutover date.
  - Enter input data that determines direct labor headcount after the cutover date.
  - Enter the direct labor target utilization percent (compared to theoretical hours available).
  - Enter the overtime premium percent for hours that exceed the theoretical limit.
5. Enter direct overhead cost per product unit, for each product in each time period.
6. If your model includes the Production Learning Curve feature (applies only to production, not to product support):
  - Enter the production learning curve factor for each product and each type of direct cost.
  - Enter the initial cumulative production units of each product.
  - Enter the percentage of production learning savings that are reflected in price reductions.
7. If your model has the Product Support feature:
  - Enter direct material cost per unit of product support per year, in each time period.
  - If your model does NOT have the Direct Labor Hours feature for product support, then enter the annualized direct labor cost per unit of support, for each time period.
  - If your model has the Direct Labor Hours feature for product support, then
    - Enter the direct labor hours per unit for each product in each time period.

- Enter the cost per hour of direct labor for each direct labor type and each supported product.
  - If your model has the direct Labor Headcount feature for product support, then
    - Enter the direct labor count cutover for product support – that is, the number of time periods for which you explicitly specify direct labor headcount, and after which direct labor headcount is determined by workload and target hours per direct labor person.
    - Enter the direct labor count to be used before the direct labor cutover date.
    - Enter input data that determines direct labor headcount after the cutover date.
    - Enter the direct labor target utilization percent (compared to theoretical hours available).
    - Enter the overtime premium percent for hours that exceed the theoretical limit.
8. If your model includes the contract revenue feature, then enter the direct cost as a percent of revenue, for each contract type, each location, each direct cost type, in each time period.

#### **Step 4: Enter Employment Input Data**

Select the Inputs worksheet, and go to the section "Employment Input Data". (This does not include direct labor, which is handled in the previous section.)

1. Employee Count
  - Enter the Employee Count Cutover (on the far right) – that is, the number of the time period before which you explicitly specify employee headcount and after which employee headcount is determined by revenue and scaling formulas.
  - Enter the Employee Count Early – the employee count you explicitly specify to be used before the Employee Count Cutover date.
  - Enter the Employment scaling factors (on the far right) – that is, the factors in the formula

$$\text{headcount} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.$$

Enter this data for each job level in each department. (For example, to make headcount proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K2 = 1$  a number that expresses the relationship between revenue and headcount.)

2. Employee Compensation
  - Enter the initial average annual wage/salary for each job level in each department.
  - Enter the wage/salary increase percentage; and indicate whether this is an annual rate or a per-period rate.
  - Enter the bonus percent of base wage/salary for each job level in each department.
  - Enter the sales commission percentage, and the percent of revenue that is commissioned.
  - Enter the payroll tax percent and the benefits percent for employees for each job level in each department.

#### **Step 5: Enter Other Operating Expense Input Data**

Select the Inputs worksheet, and go to the section "Other Operating Expense Input Data ".

1. If your model includes the recruiting expense feature:, then Enter the annual employee turnover percent, the percent of open positions that are recruited, and the recruiting expense as a percentage of compensation, for each job level in each department.
2. If your model includes the marketing programs feature:

- Enter the Marketing Programs Cutover (on the far right) – that is, the number of the time period before which you explicitly specify employee headcount, and after which employee headcount is determined by revenue and scaling formulas.
- Enter the Marketing Programs Early – the Marketing Programs you explicitly specify to be used before the Marketing Programs Cutover date.
- Enter the marketing program scaling factors (on the far right) – that is, the factors in the formula

$$\text{program expense} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.$$

Enter this data for each marketing program. (For example, to make marketing programs proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K1$  = a number that expresses the relationship between revenue and program expenses.)

3. If your model includes the department- specific expense account feature:
  - Enter the expenses for each departmental expense account in each time period.
  - Note: You can edit the department-specific expense accounts on the Labels worksheet. The top level of the hierarchy should be identical with the list of departments. If you want to increase the number of department-specific accounts for one department, go to the ModelSheet website and re-customize your model.
4. Facilities Expense: Enter values for the five facilities expense fields for each time period.
5. General & Admin Expense, then enter the G&A scaling factors that is, the factors in the formula
 
$$\text{program expense} = K0 + K1 * (\text{annualized revenue} / 10000)^{K2}.$$

Enter this data for each G&A expense account. (For example, to make G&A Expense proportional to revenue, set  $K0=0$ ,  $K1=0$  and  $K1$  = a number that expresses the relationship between revenue and expenses.)
6. If your model includes Leases, then enter values for the seven parameters that describe each lease.
7. Miscellaneous Operating Expenses:
  - Enter Employee-Related Expense per Employee per Year, for each department, job level, and time period.

## Step 6: Enter Financial and Tax Input Data

Select the Inputs worksheet, and go to the section Financial and Tax Input Data.

1. Enter the short interest rate, long interest rate, interest rate earned on deposits, and bad debts as a percentage of receivables.
2. Enter the income tax rate for each time period.
 

If your model includes two income tax rates, then enter

  - the second income tax rate, and
  - the threshold level of income above which the second income tax rate applies.
3. Enter the discount rate for cash flows.
  - Enter the method for setting the discount rate: either Direct (which means you directly input a discount rate) or 'CAPM' (which means the rate is computed from other financial parameters using the capital asset pricing model. 'Direct' is the simplest choice.

- If you entered 'Direct' for the method of setting the discount rate, then
  - Enter the annualized discount rate for each time period.
- If you entered 'CAPM' for the method of setting the discount rate,
  - Enter the 'beta' parameter for each sub-project. Beta is a parameter that measures how much earnings and cash flow tends to correlate with stock market returns.
  - Enter the annualized riskless discount rate for each time period. This is approximately the interest rate on high-grade debt of very stable governments, such as the interest rate on U.S. government treasury bills.
  - Enter the annualized market risk premium rate for each time period. This is the extra earnings that investments in stocks are expected to make in excess of the interest rate on riskless debt.

### **Step 7: Enter Input Data for Auxiliary Businesses**

If your model includes small auxiliary businesses, then go to the section "Auxiliary Businesses" on worksheet 'Inputs'.

1. Enter the revenue for each Auxiliary Business in each time period.
2. Enter the cost of goods and services for each Auxiliary Business in each time period.
3. Enter the operating expense for each Auxiliary Business in each time period.

Note: You can change the name of each Auxiliary Business on worksheet 'Labels'.

### **Step 8: Enter Asset Input Data**

Select the Inputs worksheet, and go to the section 'Asset Input Data'.

#### Short-term Assets

1. Cash:
  - Enter initial cash balance
  - Enter the target for cash balance in each time period, expressed as a number of days of revenue.
  - Enter prepaid expenses. (These are classified as near-cash assets. Your model may include several types of prepaid expenses.)
2. Inventory:
  - Enter the initial inventory value of raw material and supplies.
  - Enter the initial finished goods inventory value and units for each product.
  - Enter target for inventory of raw materials and supplies, in two parts.
    - a) Part expressed as a number of days of sales units, for each time period.
    - b) Part expressed as a number of sales units, for each time period.
  - Enter the target for finished goods inventory, expressed as a number of days of sales units, for each product and each time period.
    - c) Accounts receivable:
      - Enter the initial value of receivables for products, product support, and contracts.
      - Enter the target receivables for products, product support, and contracts, expressed as a number of days of revenue.

### Long-term Assets

1. For each tagged asset, enter Asset Name, Purchase Date, Depreciation Method, Life (in years), Initial Value, and Salvage Value. (A tagged asset is a physical asset that is tracked and depreciated separately.) (You can change the name of each untagged asset on worksheet 'Labels'.)
2. For each untagged asset type,
  - Enter the name of the asset type.
  - Enter the depreciation life (in years).
  - Enter the amount purchased at the beginning of model time, purchases for each new employee, and purchases annually to support each existing employment position.
3. If your model includes intangible assets,
  - a) For each intangible asset, enter Asset Name, Purchase Date, Depreciation Method, Life (in years), Initial Value, and Salvage Value. (An intangible asset is an asset that is not associated with a physical asset.) (You can change the name of each untagged asset on worksheet 'Labels'.)
  - b) If you want to specify "goodwill", enter it in the line for Goodwill value. (Goodwill is usually used to track the value in excess of book value of an acquisition.)
4. If your model includes custom depreciation schedules, enter the depreciation schedules as a percentage of initial value in each time period.
5. If your model includes capitalized development as an asset:
  - Enter the initial value of capitalized development for each listed expense category.
  - Enter the life (in years) of capitalized development assets
  - Enter an annual amount of capitalized development for each listed expense category.
  - Enter a percentage of development spending that is capitalized for each listed expense category.
4. If your model includes Bonds Held (as outside investments), then for each bond, enter values for the seven parameters that describe each bond: Sale Date, Initial Value, Life (in years), Bond Origination Fee (as a percentage of Initial Value), Annualized Interest Rate, Balloon Payment (at end of life).
5. If your model includes other outside financial investments, then
  - a) Enter the value of each outside investment in each time period.
  - b) Enter the ROI % for each outside investment in each time period.
  - c) Enter the profit from each outside investment in each time period. (You can either let the model compute these values from the value of the investment and the ROI %, or you can override that default value by entering values in this table.)

## **Step 9: Enter Liability Input Data**

Select the Inputs worksheet, and go to the section 'Liability Input Data'.

### Short-term Liabilities

1. For Accounts Payable,
  - Enter the initial value of payables for Vendor Payables, Payroll Payables, and Taxes Payable. (Example: these are usually all zero for a startup, and positive for a going concern.)
  - Enter the target accounts payable, expressed as a number of days of revenue.

2. Enter the amount of Short-term Debt at the end of each time period. (The model fills this in with default values that maintain a reasonable positive cash balance.)

### Long-term Liabilities

1. Enter the amount of Long-term Revolving Loans at the end of each time period.
2. If your model includes Term Loans, then for Term Loan, enter values for the seven parameters that describe each term Loan: Start Date, Initial Value, Life (in years), and Annualized Interest Rate.
3. If your model includes Bonds Outstanding, then for each bond, enter values for the seven parameters that describe each Bond: Sale Date, Initial Value, Life (in years), Bond Origination Fee (as a percentage of Initial Value), and Annualized Interest Rate, and Balloon Payment (at end of life).
4. If your model includes long-term liabilities accrued in one time period and paid in a different time period, then in the section "Other Long-term Liabilities":
  - a) Enter the value of the new accrued liabilities in each timer period.
  - b) Enter the value of new payments on accrued liabilities in each time period.

## **Step 10: Enter Owners' Equity Input Data**

Select the Inputs worksheet, and go to the section 'Equity Input Data'.

1. Enter the value of stock issued in each time period (sales of stock net of repurchases).
2. Enter the dividend paid in each time period.

## **Step 11: Enter Valuation Input Data**

Select the Inputs worksheet, and go to the section 'Valuation Input Data'.

1. Enter the Cash Flow Expectation Factor (defined as  

$$\frac{\text{(expected cash flow in the next year)}}{\text{(plan cash flow in the next year)}}$$
 for each time period. This factor measures risk in planned cash flows.
2. Enter the annualized Tail Growth Rate and annualized Tail Discount rate (for estimated cash flows that occur after the end of model time, for inclusion in valuation of the business).
3. Enter initial guesses for the IRR (internal rate of return) of the cash flows of the business with and without the cash flows in the 'tail' after the end of model time.

## **Step 12: See Your Results!**

Now that you've entered your data, take a look at the four major financial statements.

- Income statement (worksheet 'IncStmt'):  
You can see details that affects the income statement, on worksheets Sales, 'Cogs GM' (cost of goods and gross margin), OpExp (operating expense), Labor, FinTax (financial and tax expenses).
- Balance sheet (worksheet 'BalSht')  
You can see details that affects the balance sheet, on worksheets Assets, 'Liab' (liabilities), and Equity.
- Cash flow (worksheet 'CFStmt')
- Ratio report (worksheet 'RatioRpt').

The valuation of the business is summarized on worksheet 'Value'.

If you want to learn more what these quantities mean, read the comment on the table by hovering the mouse over the cell with the small red triangle (which is Excel's way of telling you that cell has a comment). There you'll also find a "formula name" that defines the table. You can look up that name on the 'Formulas' worksheet to see the human-readable formulas that are used to define the values in the table.

## Financial Plan for a Business Explained in a NutShell

Your Financial Plan for a Business model produces the four main financial reports for a business.

1. Income statement – revenue, cost of sales, operating expenses, financial expenses, and income
2. Balance sheet – assets, liabilities and equity
3. Cash flow statement - starting cash balance, cash sources, cash uses, and ending cash balance
4. Ratio report – operating ratios and financial ratios.

The remainder of the model consists of more detailed information on about a dozen sectors of the model. The model provides a wide range of optional features to accommodate the more common aspects of businesses. See the list of features at

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-templates-version-comparison.aspx>. The model has reports in these areas.

1. Sales: tracks sale of products, optional annual product support, and installed base. Also optional contract revenue
2. Cost of Goods: tracks direct material, direct labor and direct supplies.
3. Operating Expense: tracks expenses for manpower, recruiting, marketing programs, facilities, leases, and expense accounts by department.
4. Employment: tracks headcount by job level and department.
5. Finance and tax: tracks interest income and expense, bad debt, and income tax.
6. Assets: tracks short term assets (cash, inventory, receivables) and long-term assets (major tagged assets, smaller untagged assets).
7. Liabilities: tracks short-term liabilities (payables and short-term debt) and long-term liabilities (long-term debt, corporate bonds).
8. Equity: tracks paid-in capital, retained earnings, sales of stock, and dividends.
9. Valuation: computes valuation of the business.

In broad outline, that is all there is to it.

Not all features mentioned here are present in the Light and Standard versions of the model.

## Where to Get More Information

Read the Excel comment on each table on every worksheet. Each comment contains important information about what the table contains or what it does in the model.

Worksheet 'Formulas' contains a list of the named variables in the model and formulas that define each variable in terms of other variables. This worksheet is often the best way to understand how the entire model fits together.

The user guide for this product contains more information. See

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-templates-user-guide.aspx>

The introductory webpage for the Sales Plan template is

<http://templates.modelsheetsoft.com/modelsheettemplates/financial-plan-templates.aspx>

Please address queries to: [customerservice@modelsheetsoft.com](mailto:customerservice@modelsheetsoft.com) .

Please visit our website at: <http://www.modelsheetsoft.com> .

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