Universal Funding Proposal

&

Business Planning / Forecasting Model

Baseline Cash Flow Assumptions

Version 1.0 – 7 of 11 (B)

virtual finance director

0203 475 3313 | info@VFD-Pro.com | www.VFD-Pro.com

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The Universal Forecast and Funding Proposal Model - Purpose

Use the Universal Forecast and Funding Proposal Model to support your business planning and create the following:

- **Your 5-year Business Plan and Forecast**
  - ✓ Years 1 and 2 detailed by month
  - ✓ Years 3 to 5 detailed per year
- **Understand and Plan for Your Future**
- **Model the Impact of Funding on Your Business**
- **Apply for Loan or Equity Funding**

You can use the Universal Forecasting and Funding Proposal Model regardless of the accounting system you use, to build a 5-year Business Plan / Forecast for your business.

Use your plan to understand, plan and budget for the future to help you and your team maintain a clear picture of exactly where you are on your journey.

If your business needs to raise finance, your Business Plan can quickly and easily be used to generate a robust Funding Proposal that provides everything lenders or investors need to approve funding.

"It takes as much energy to wish as it does to plan"

Eleanor Roosevelt

1. Entering and Setting Up your Baseline 3 Way Forecast - Step 8

1.1. Baseline 3 Way Forecast – Depreciation Percentage Assumptions

Introduction and Tool Tip

- Enter the depreciation % to be applied to your Fixed Asset balance.

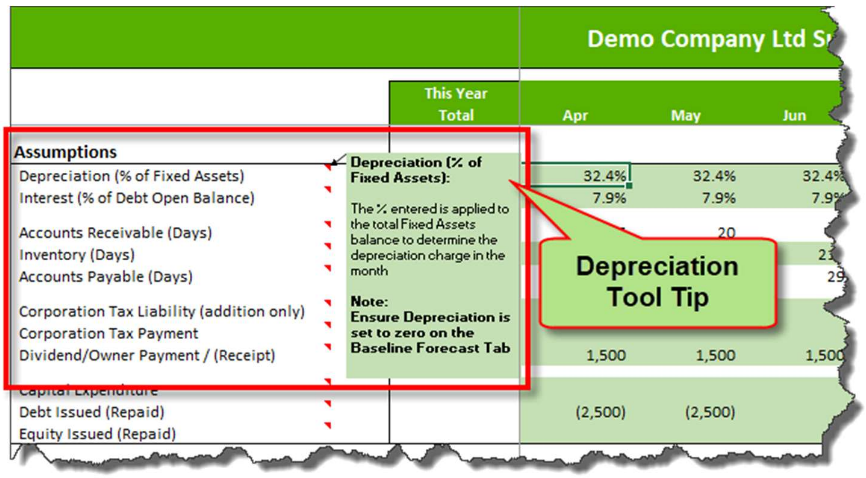

Figure 1 - Step 8: Depreciation Tool Tip

Depreciation: Explanation and Entry of Assumptions

- The % entered is applied to the opening Fixed Assets balance to determine the depreciation charge in the month.
- The model will automatically calculate a recommended depreciation charge based on the transactions over the past 12 months, which can be amended.
- The figure generated will impact the following elements of your 3 Way Forecast:
  - Profit & Loss – The Depreciation charge will reduce your profit.
  - Balance Sheet – The Depreciation charge will reduce your Fixed Assets.
  - Operating Cashflow – The Depreciation charge will be added back as it is not a cash charge within your Profit & Loss.

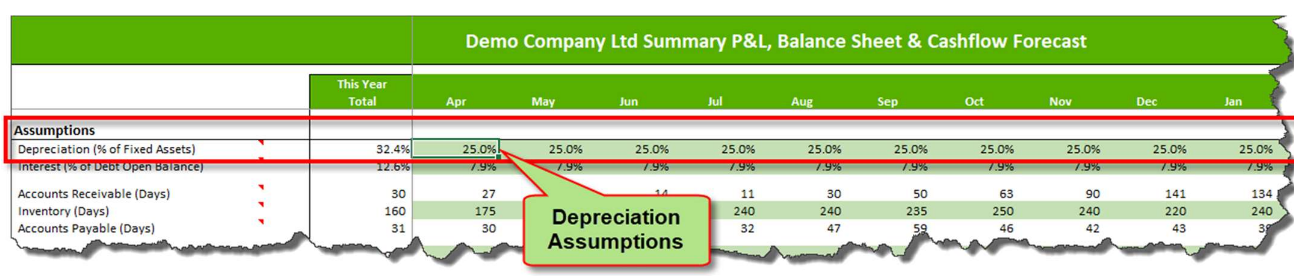

Figure 2 - Step 8: Depreciation Forecast Assumptions

Additional Information

- Ensure any assumption for Depreciation in your Baseline Forecast is set to zero, this will ensure the correct treatment (as described above) will be applied.
- If you have multiple asset categories, you should enter the average depreciation %.

1.2. Baseline 3 Way Forecast – Interest Assumptions (% of Debt Open Balance)

Introduction and Tool Tip

- Enter the interest % to be applied to the debt balance.

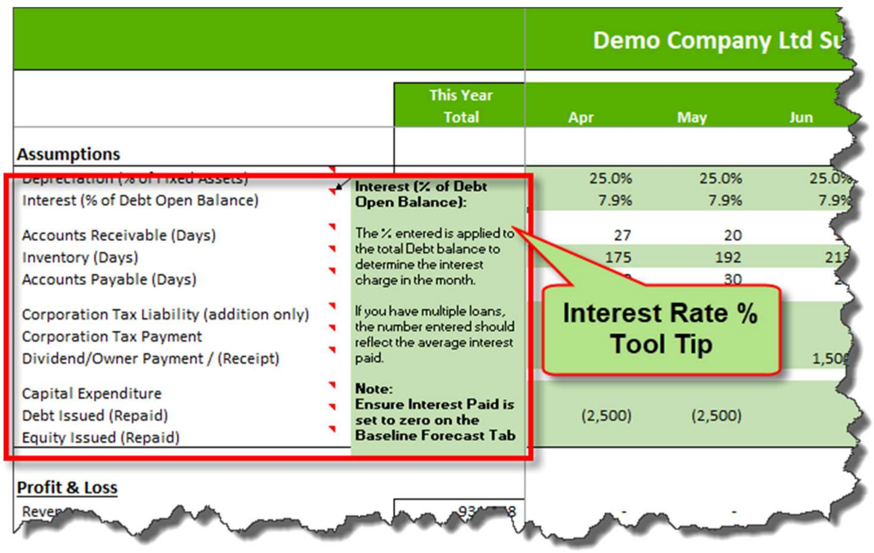

Figure 3 - Step 8: Interest Rate Percentage Tool Tip

Interest (% of Debt Open Balance): Explanation and Entry of Assumptions

- The % entered is applied to your opening Debt balance to determine your interest charge in the month.
- The model will automatically calculate a recommended interest charge based on your transactions over the past 12 months, which can be amended.
- The figure generated will impact the following elements of your 3 Way Forecast:
    - Your Profit & Loss – Interest charge will reduce profit.
    - Your Operating Cashflow – Interest charge is included within your Net Earnings in the Cash from Operations calculation.

Figure 4 - Step 8: Interest Rate Percentage Forecast Assumptions

Additional Information

- Ensure any assumption for Interest Paid in your Baseline Forecast is set to zero, this will ensure the correct treatment (as described above) will be applied.
- If you have multiple loans, the number entered should reflect the average interest paid.

1.3. Baseline 3 Way Forecast – Inventory Assumptions (Days)

Introduction and Tool Tip

- Enter the number of days stock is held in your business (based on the Cost of Sales for the preceding 12 months).

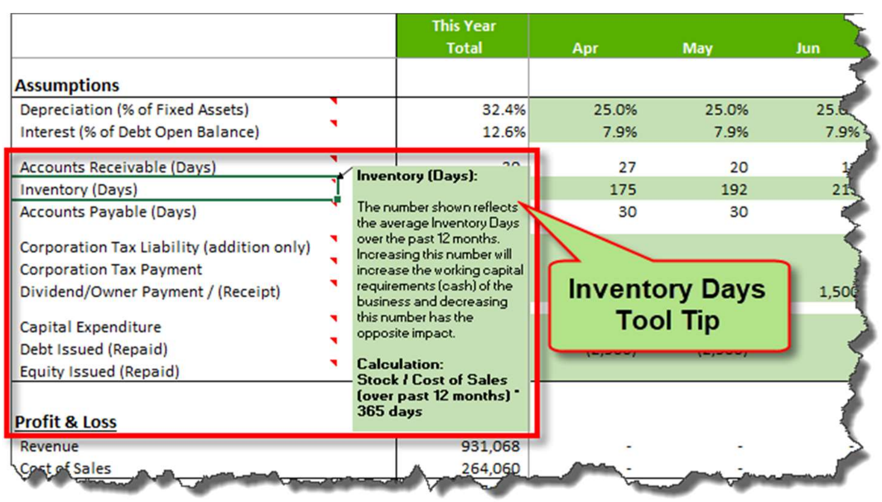

Figure 5 - Tab 8: Inventory Days Tool Tip

Inventory (Days): Explanation and Entry of Assumptions

- The value entered is applied to the total Cost of Sales for the preceding 12 months to determine your stock valuation.
- The model will automatically calculate the current days stock is held based on your transactions over the past 12 months, which can be amended.

- The figure generated will impact the following elements of the 3 Way Forecast:
  - Your Balance Sheet – Stock valuation.
  - Your Operating Cashflow – Net working capital movement.

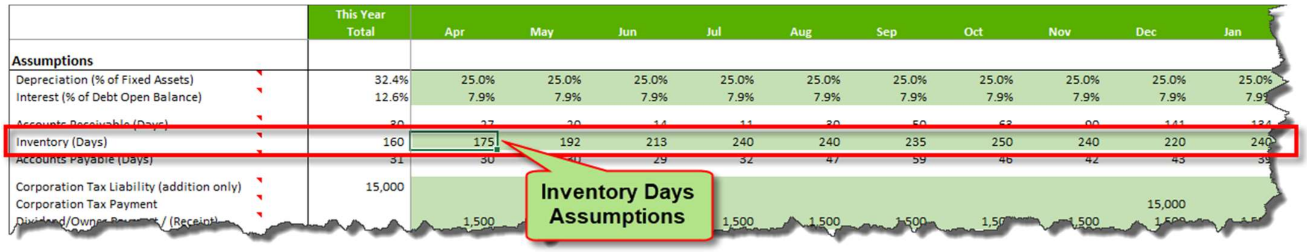

Figure 6 - Step 8: Inventory Days Forecast Assumptions

Additional Information

- Reducing your stock valuation will have the effect of reducing your cost of sales working capital requirements by utilising existing instead of purchasing new stock/materials.
- Your Stock valuation is calculated using the following formula (Cost of Sales for the past 12 months * Inventory (Days) / 365 Days).

1.4. Baseline 3 Way Forecast – Corporation Tax Liability Assumptions

Introduction and Tool Tip

- Enter your Corporation Tax liability in the month it is recognised on your P&L.

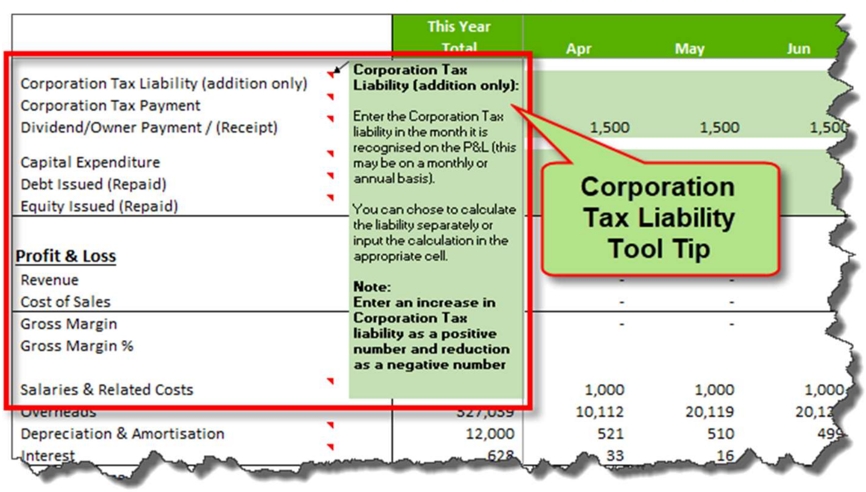

Figure 7 - Step 8: Corporation Tax Tool Tip

Corporation Tax Liability (addition only): Explanation and Entry of Assumptions

- The value entered is applied to your Profit & Loss in the corresponding month.

- The figure entered will impact the following elements of your 3 Way Forecast:
  - Your Profit & Loss – Corporation Tax charge in the month.
  - Your Balance Sheet – Increase/Decrease in your Corporation Tax liability.

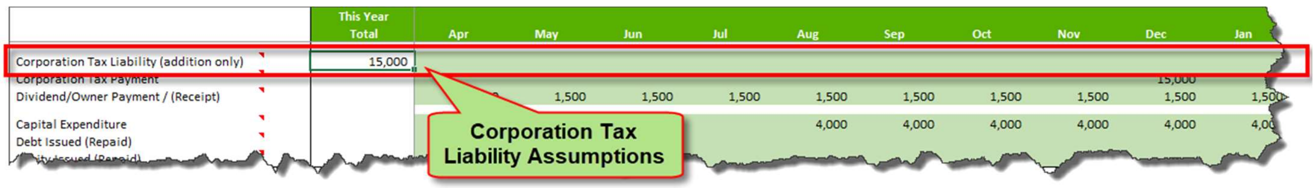

Figure 8 - Step 8: Corporation Tax Liability Forecast Assumptions

Additional Information

- Only enter the increase or decrease in your tax liability, the payment of your Corporation Tax is entered on the Corporation Tax Payment line.
- Enter an increase in Corporation Tax liability as a positive number and reduction as a negative number.
- Corporation Tax calculations can be complicated, we recommend seeking advice from your accountant.

1.5. Baseline 3 Way Forecast – Corporation Tax Payment Assumptions

Introduction and Tool Tip

- Enter your Corporation Tax payment in the month it is paid.

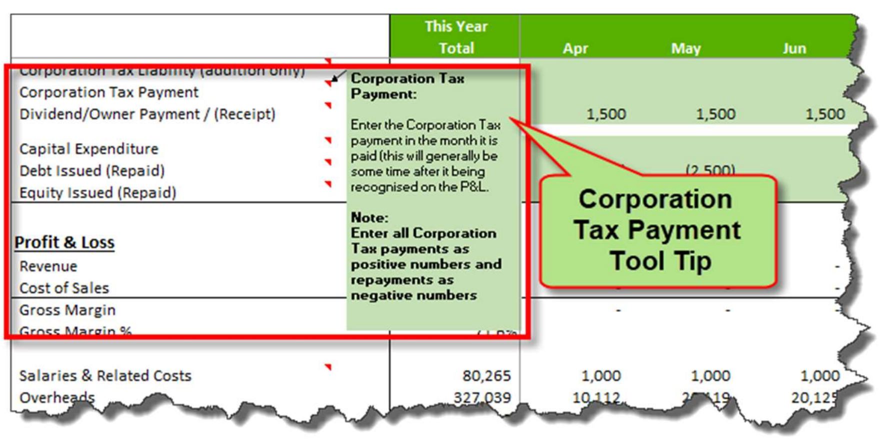

Figure 9 - Step 8: Corporation Tax Payment Tool Tip

Corporation Tax Payment: Explanation and Entry of Assumptions

- The figure you enter will impact the following elements of your 3 Way Forecast:
  - Your Balance Sheet – Decrease in Corporation Tax liability.

- Your Operating Cashflow – Corporation Tax payment increases the requirement for working capital and therefore decreases the Cash balance.

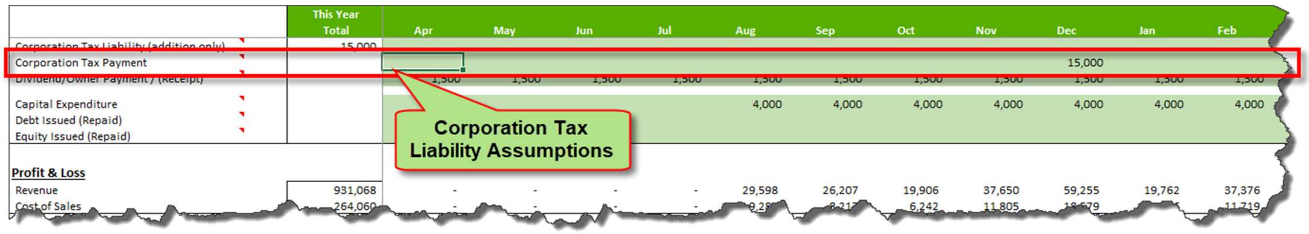

Figure 10 - Step 8: Corporation Tax Payment Forecast Assumptions

Additional Information

- The Corporation Tax payment will generally be some time after it is recognised in your P&L.

1.6. Baseline 3 Way Forecast – Dividend Assumptions

Introduction and Tool Tip

- All your dividend or Owner payment assumptions should be accounted for here.

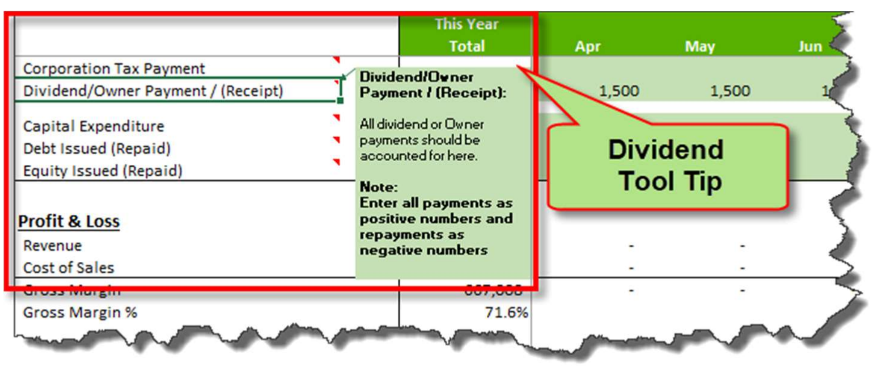

Figure 11 - Step 8: Dividend Tool Tip

Dividend/Owner Payment / (Receipt): Explanation and Entry of Assumptions

- The figure you enter will impact the following elements of your 3 Way Forecast:
  - Your Balance Sheet – Change in Cash balance.
  - Your Financing Cashflow – Impact on the cash required from financing activity.

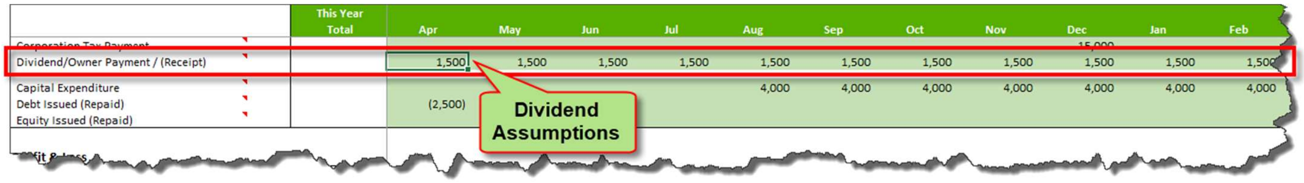

Figure 12 - Step 8: Dividend Forecast Assumptions

1.7. Baseline 3 Way Forecast – Capital Expenditure Assumptions

Introduction and Tool Tip

- All your planned Capital Expenditure should be recorded here.

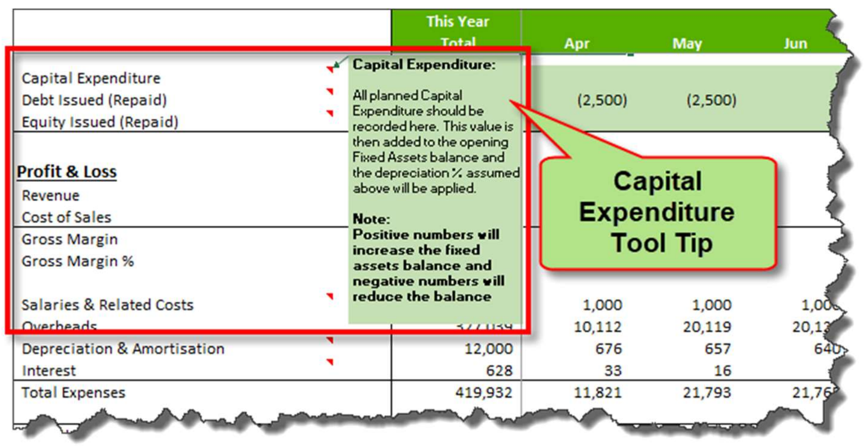

Figure 13 - Step 8: Capital Expenditure Tool Tip

Capital Expenditure: Explanation and Entry of Assumptions

- This value is added to your opening Fixed Assets balance. The depreciation % assumed above will be then applied from the following month.
- The figure generated will impact the following elements of your 3 Way Forecast:
    - Your Profit & Loss – Increase in Depreciation charge will reduce profit.
    - Your Balance Sheet – Capital expenditure will increase Fixed Assets.
    - Your Investing Cashflow – Impact on the cash required from investing activity.

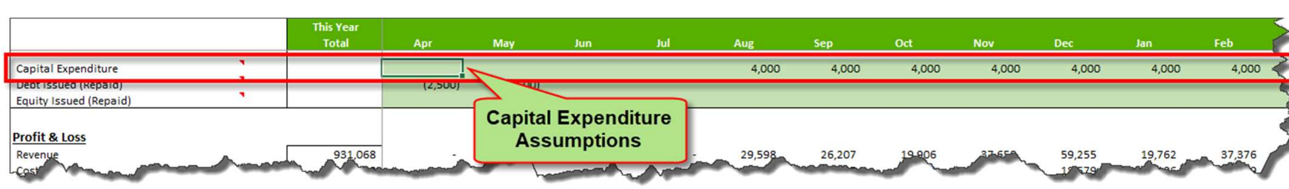

Figure 14 - Step 8: Capital Expenditure Forecast Assumptions

1.8. Baseline 3 Way Forecast – Debt Repayment (Existing Debt) Assumptions

Introduction and Tool Tip

- All Debt issued and capital repaid is captured here.

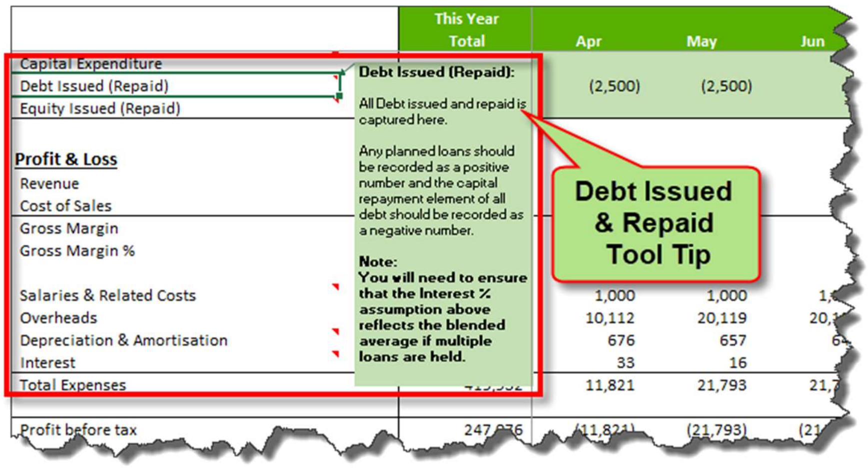

Figure 15 - Step 8: Debt Issued and Repaid Tool Tip

Debt Issued (Repaid): Explanation and Entry of Assumptions

- Any planned loans should be recorded as a positive number and the capital repayment element of all debt should be recorded as a negative number.
- The figure generated will impact the following elements of the 3 Way Forecast:
  - Profit & Loss – Interest charge resulting from the debt will reduce profit.
  - Balance Sheet – Increase/decrease in Debt balance.
  - Financing Cashflow – Impact on the cash required from financing activity.

Figure 16 - Step 8: Debut Issued and Repaid Forecast Assumptions

Additional Information

- Any loan additions may require an amendment to the interest % to reflect the average interest % charge.

1.9. Baseline 3 Way Forecast – Share Issue or Buy-Back Assumptions

Introduction and Tool Tip

- Any equity issued or buy back of shares should be captured here.

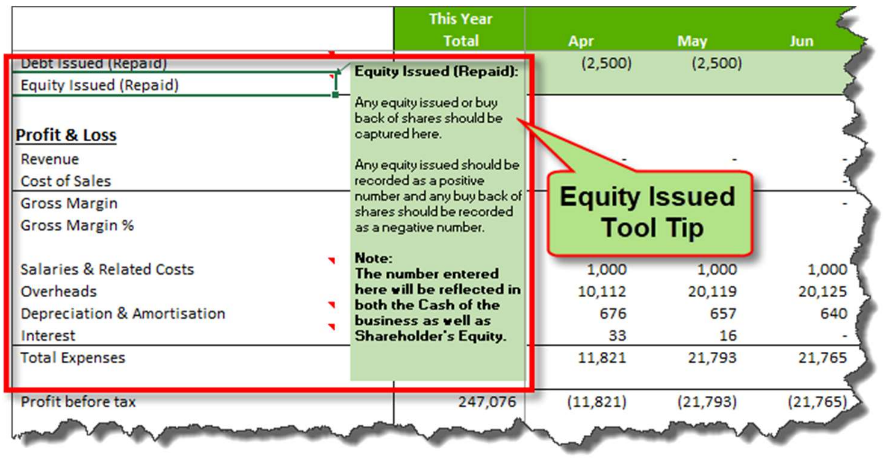

Figure 17 - Tab 8: Equity Tool Tip

Equity Issued (Repaid): Explanation and Entry of Assumptions

- Any equity issued should be recorded as a positive number and any buy back of shares should be recorded as a negative number.
- The figure entered will impact the following elements of the 3 Way Forecast:
  - Your Balance Sheet – Increase/decrease in Shareholder's Equity.
  - Your Financing Cashflow – Impact on the cash required from financing activity.

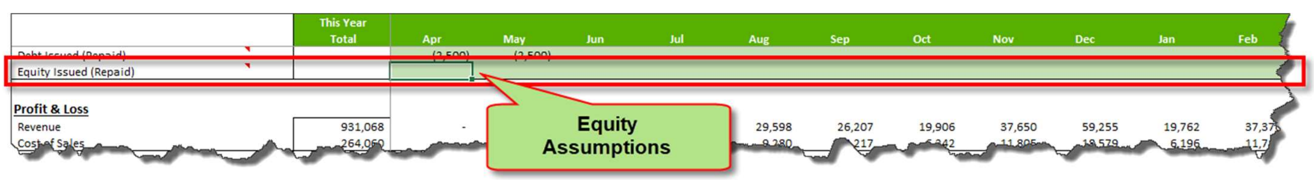

Figure 18 - Step 8: Equity Assumptions

1.10. Baseline 3 Way Forecast – Salary and Dividends

Introduction and Tool Tip

- Any Salary related expenditure within your Baseline Forecast is consolidated here.

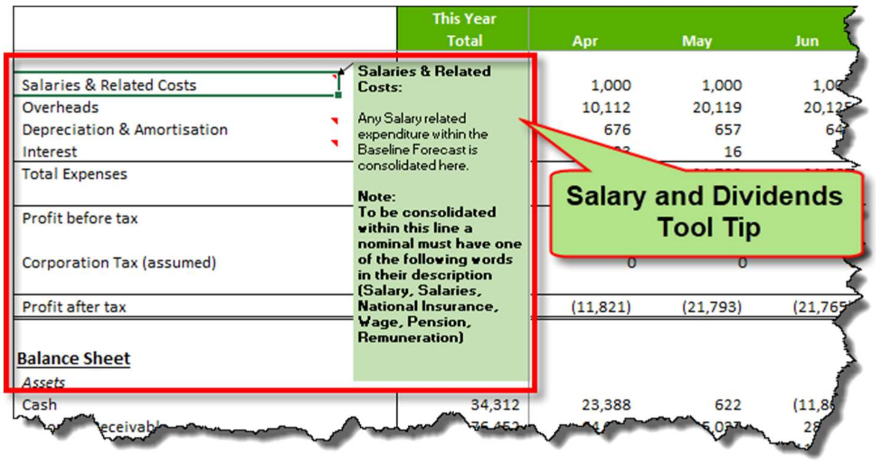

Figure 19 - Step 8: Salary and Dividends Tool Tip

Salaries & Dividends: Explanation and Entry of Assumptions

- To be consolidated within this line a nominal must have one of the following words in their description (Salary, Salaries, National Insurance, Wage, Pension, Remuneration).

Additional Information

- Any costs that are consolidated in this line are excluded from your Input VAT calculation.

1.11. Baseline 3 Way Forecast – Goodwill / Intangible Assets

Introduction and Tool Tip

- Any nominal entered on your Closing Balance Sheet tab that has Goodwill or Intangible in the description and is categorised as a Fixed Asset will be consolidated in this line.

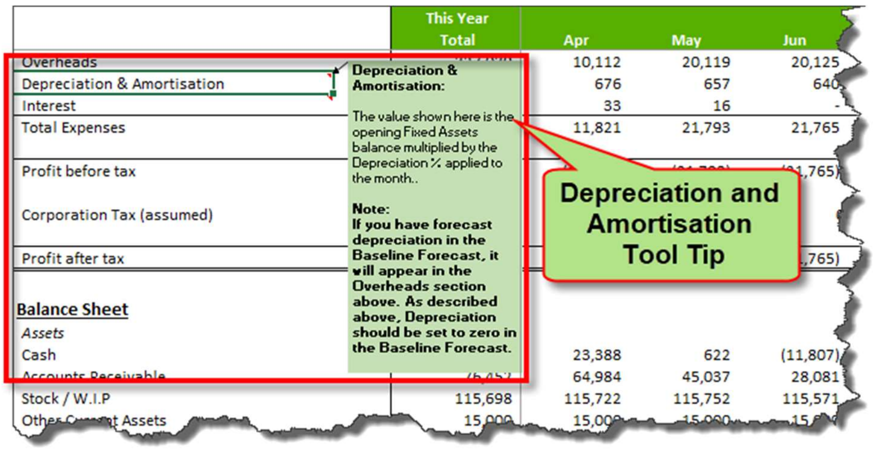

Figure 20 - Step 8: Depreciation and Amortisation Tool Tip

Goodwill / Intangible Assets: Explanation and Entry of Assumptions

- These balances are assumed to remain constant throughout your forecast.

1.12. Baseline 3 Way Forecast – Equity and Historic Retained Earnings

Introduction and Tool Tip

- Individual Shareholder's Equity nominals do not feed through to the Shareholder's Equity section of your Balance Sheet.
- Historic Shareholder's Equity remains constant throughout the forecast and all additions or subtractions feed through to either 'Retained Earnings' or 'Dividend Payment'.

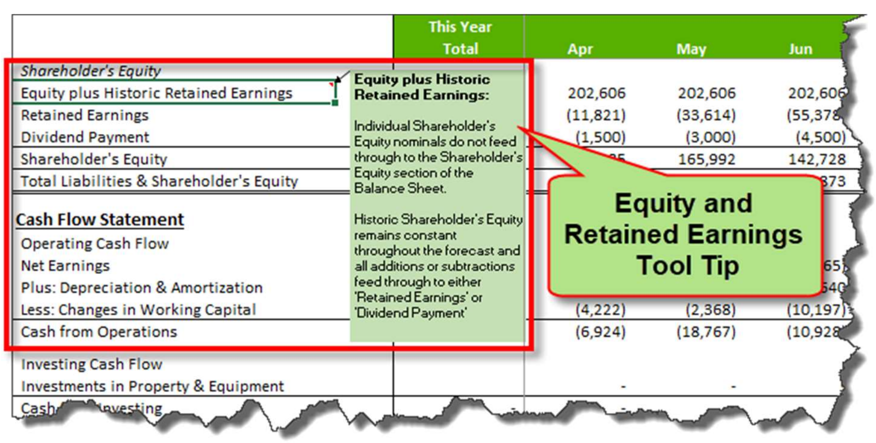

Figure 21 - Step 8: Equity and Retained Earnings Tool Tip

1.13. Baseline 3 Way Forecast – VAT Cycle and Payment Assumptions

Introduction and Tool Tip

- Selecting the appropriate VAT cycle from the drop-down box will assume that all outstanding VAT Payable or Recoverable is paid or received during the month following the end of your VAT quarter.

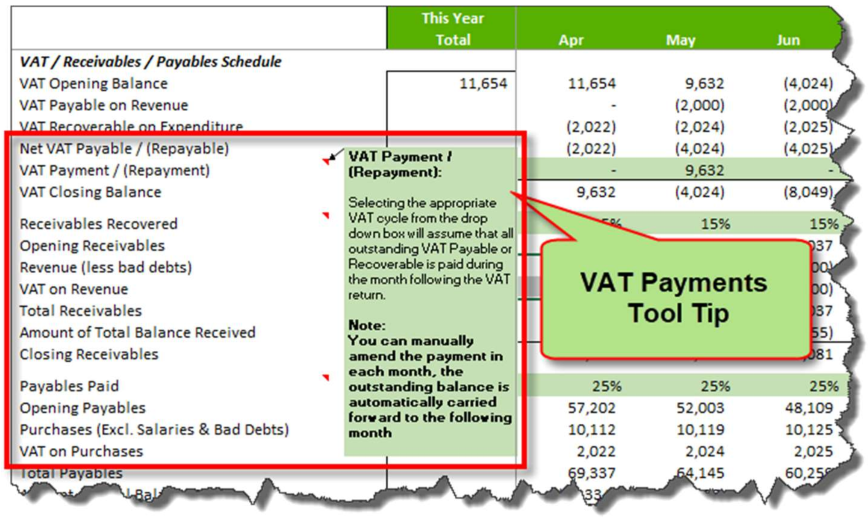

Figure 22 - Step 8: VAT Payment Tool Tip

VAT Payment / (Repayment): Explanation and Entry of Assumptions

- You can manually amend the payment in each month, the outstanding balance is automatically carried forward to the following month.
- The figure generated will impact the following elements of your 3 Way Forecast
  - Your Balance Sheet – VAT balance.
  - Your Operating Cashflow – VAT payment increases the requirement for working capital and therefore decreases the Cash balance.

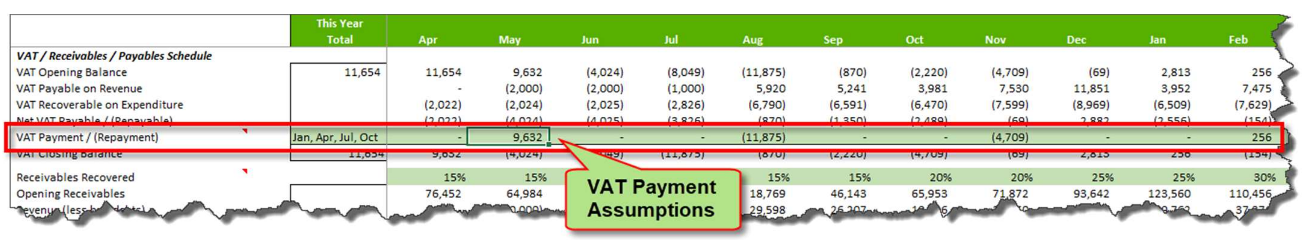

Figure 23 - Step 8: VAT Payment Forecast Assumptions

1.14. Baseline 3 Way Forecast – Debtors / Receivable Assumptions

Introduction and Tool Tip

- Enter the % of receivables generated by the end of the month that will be recovered in the month.

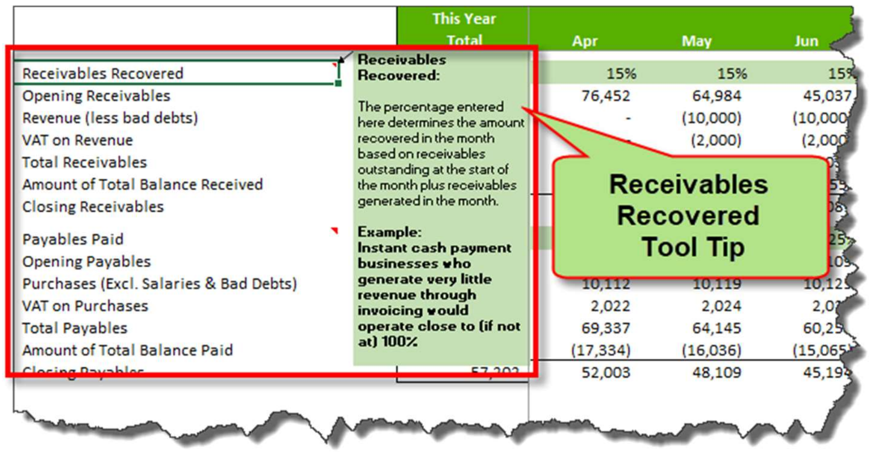

Figure 24 - Step 8 Receivables Recovered Tool Tip

Receivables Recovered: Explanation and Entry of Assumptions

- The percentage entered here determines the amount recovered in the month based on receivables outstanding at the start of the month plus receivables generated in the month.
- The figure generated will impact the following elements of your 3 Way Forecast
  - Your Balance Sheet – The figure generated will reduce the outstanding Accounts Receivable.
  - Your Operating Cashflow – The amount received is included within the 'Changes in Working Capital' in the Cash from Operations calculation.

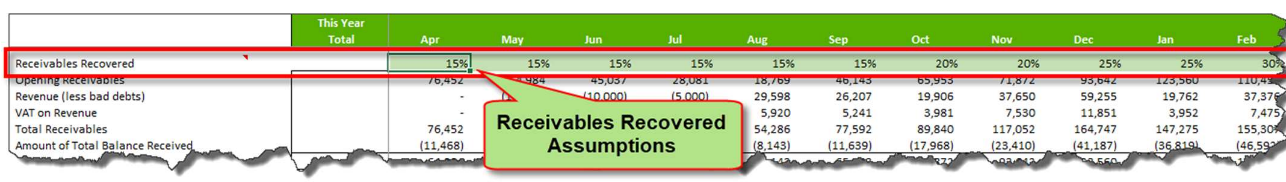

Figure 25 - Step 8: Receivables Recovered Forecast Assumptions

Additional Information

- Instant cash payment businesses who generate very little revenue through invoicing would operate close to (if not at) 100%.

1.15. Baseline 3 Way Forecast – Creditor / Payable Assumptions

Introduction and Tool Tip

- Enter the % of payables generated by the end of the month that will be paid in the month.

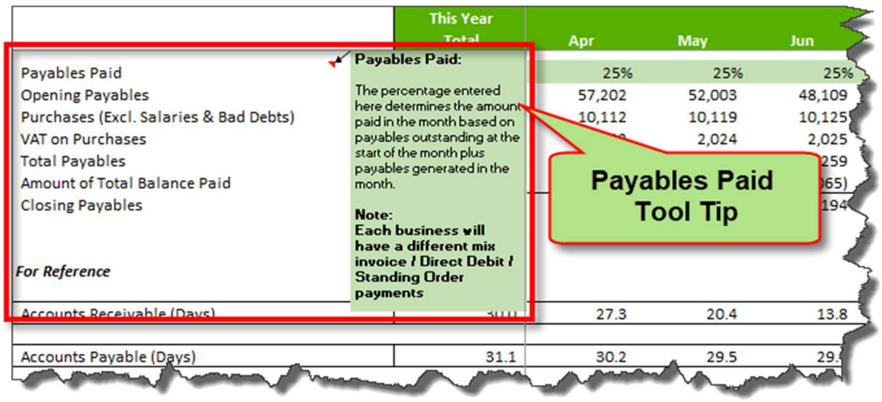

Figure 26 - Step 8: Payables Paid Tool Tip

Payables Paid: Explanation and Entry of Assumptions

- The percentage entered here determines the amount paid in the month based on payables outstanding at the start of the month plus payables generated in the month.
- The figure generated will impact the following elements of your 3 Way Forecast
  - Your Balance Sheet – The figure generated will reduce the outstanding Accounts Payable.
  - Your Operating Cashflow – The amount paid is included within the 'Changes in Working Capital' in the Cash from Operations calculation.

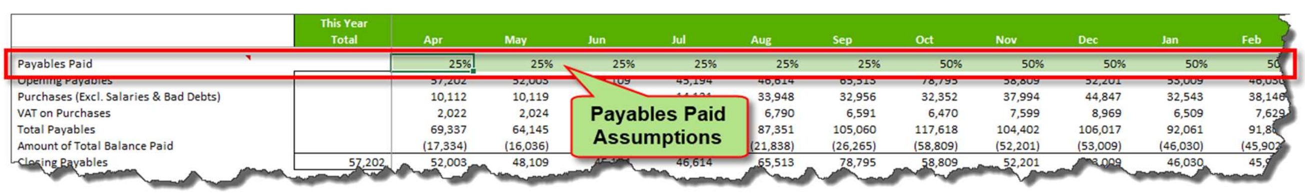

Figure 27 - Step 8: Payables Paid Forecast Assumptions

Additional Information

- Each business will have a different mix invoice / Direct Debit / Standing Order payments.

2. 'With Funding' Profit and Loss Forecast Assumptions – (Step 9)

The 'With Funding' Forecast Tab is only used if your business is using the model to apply for funding. If you are not applying for funding you don't need to use Tab 9 or Tab 10 (Funding 3 Way Forecast), simply move to the Forecast Report, Tab 11.

The Funding Forecast Tab is used to enter the expected impact of funding on your business' Profit and Loss forecast.

Example Scenarios and impact on the Funding Forecast:

1. **Applying for a loan to increase your working capital during a temporary downturn in trading.**

   In this example there would be no impact on your Funding Forecast P&L or your Funding Balance Sheet, you would simply complete step 10 of your Funding 3 Way Forecast to enter your assumptions relative to your new loan capital, interest and repayments.

2. **Applying for a loan to invest in a Website and Online Marketing to increase your online sales.**

   In this instance the loan will have an impact on your projected Revenue, i.e. an increase in online sales/ There may also be other changes that need to be reflected in your Profit and Loss account for the capital cost of your new website, provision for website upgrades, maintenance and hosting costs.

3. **Applying for a loan to purchase plant or machinery to increase capacity and reduce variable costs.**

   Investing to increase your capacity will logically lead to increases sales volumes and presumably lower fixed or variable cost ratios. Your 'With Funding' assumptions will need to be added to your Funding Forecast P&L.

The assumptions made in your Baseline Forecast pre-populate the Funding Forecast Tab. You simply adjust your forecast: Sales, Cost of Sales / Gross Margin and Overheads to show the impact funding will have on your business, (if any).

The instructions for completion of the Funding Forecast are as detailed above for the Baseline Forecast detailed in section **Error! Reference source not found. - Error! Reference source not found.**.

3. List of Figures

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