SBM Pro-Forma Financial Statements

Course Information

Administrative Data

Course Title - SBM Pro-Forma Financial Statements
Number - SBMT2244

Total Credits - 2

Course Description

Performance Expectations

Units

A. Pro-forma Profit and Loss Statements

1. Create Current Profit and Loss Statement
2. Estimate Sales Levels
3. Identify Variable Costs
4. Identify Fixed Costs
5. Determine Gross Profit Margins
6. Determine Profit Levels
7. Create Business Budget
8. Create Pro-forma Profit and Loss Statement

B. Pro-forma Balance Sheets

1. Create Current Balance Sheet
2. Evaluate Profitability
3. Evaluate Cash Flow
4. Determine Asset Change Needs
5. Determine Debt Change needs
6. Create Pro-forma Balance Sheet

Instructor Information

Instructor Name:
E-mail Address:

Instructor Office Information

Room:
Campus:
Address:
City:
Office Phone:
Fax:
Office Hours:

Grading Information

Grading Rationale: Grades will be assigned based on the instructor's evaluation of student effort to produce pro-forma profit and loss and balance sheet statements.

Grading Scale

Pass/Fail	At least a C grade requirement
A	Creation of pro-forma profit and loss statement along with a pro-forma balance sheet
B	Creation of pro-forma profit and loss statement and partial pro-forma balance sheet
C	Creation of pro-forma profit and loss statement
D	Partial identification of accounts and budgeted amounts
F	No effort to product pro-forma statements

Policies and Information

SBM Pro-Forma Financial Statements
SBMT 2244

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SBM Pro Forma Financial Statements
Syllabus

Course Information

Title: SBM Pro- Forma Financial Statements

Course Number: SBMT 2244

Credits: 2

Description

This class examines the role of pro-forma financial statements in the financial planning of the business. The class will focus on the creation of a pro-forma Profit and Loss Statement and a pro-forma Balance Sheet.

Units and Competencies

A. Pro-Forma Profit and Loss Statement

1. Create a Current Profit and Loss Statement
2. Estimate Sales Levels
3. Identify Variable Costs
4. Identify Fixed Costs
5. Determine Gross Profit Margins
6. Determine Profit Levels
7. Create Business Budget
8. Create Pro-Forma Profit and Loss Statement

B. Pro-Forma Balance Sheet

1. Create a Current Balance Sheet
2. Evaluate Profitability and Efficiency
3. Evaluate Cash Flow
4. Determine Asset Change Needs
5. Determine Debt Change Needs
6. Create Pro-Forma Balance Sheet

Grading Policy

Grades will be assigned based on the instructor's evaluation of student effort to

Produce pro-forma profit and loss and balance sheet statements.

Grading Scale

Grade	Requirement
Pass/Fail	At least a C grade requirement
A	Creation of pro-forma profit and loss statement along with a pro-forma Balance sheet.
B	Creation of pro-forma profit and loss statement and partial pro-forma Balance sheet.
C	Creation of pro-forma profit and loss statement.
D	Partial identification of accounts and budgeted amounts
F	No effort to produce pro-forma statements

SBMT 2244
SBM Pro-Forma Financial Statements

Course Description

In this class the business owner or manager will examine the role of profit planning in their business and the process surrounding a forecast and a plan for the business's future profit performance and financial position.

Course Focus

This course will focus on creating a pro-forma profit and loss statement and a pro-forma balance sheet.

Text and References

Financial Management Techniques for Small Business by Arthur R. DeThomas, PhD, and *Managing and Financing Independent Business: Practical Tools for Control, Survival, and Success,* by Steven C. LeFever and Ronald J. Snyder*.*

Course Goals

The following list of goals will be addressed in this course. The goals are directly related to the performance objectives.

Section A – Pro-Forma Profit and Loss Statement

1. Create a current Profit and Loss Statement
2. Estimate future sales based on historical data
3. Identify the variable costs that increase or decrease with changes in sales.
4. Identify the fixed costs that are not affected by change in sales.
5. Determine the historical gross profit percent
6. Determine the desired profit levels
7. Create a monthly business budget estimating sales and expenses
8. Create a pro-forma Profit and Loss Statement based on the budget.

Section B – Pro-Forma Balance Sheet

1. Create a current Balance Sheet
2. Evaluate the profitability from the pro-forma Profit and Loss Statement.
3. Evaluate the cash flow from the business budget
4. Determine needed changes in Assets
5. Determine needed changes in Debt
6. Create a pro-forma Balance Sheet

Student Contributions

The student is expected to contribute a total of 48 hours of effort per credit towards the completion of this course.

Course Evaluation

The student will be evaluated on their ability to create a pro-forma profit and loss statement and a pro-forma balance sheet.

Course Schedule

This course will be delivered through individual and/or classroom instruction.

SBM Pro-Forma Financial Statements Overview

SBM Pro-Forma Financial Statements examines the importance of creating a financial plan and forecast for your business. This class will focus on creating a projected (pro-forma) profit and loss statement and balance sheet. These projected statements estimate the business's profitability and overall financial condition for future months. The class is broken down into two sections:

The first section focuses on creating a pro-forma profit and loss statement that reflects estimated values based on historical data, estimated sales, expenses and profits, and planning assumptions.

The second section focuses on creating a pro-forma balance sheet based on estimated levels of assets, liabilities, owner's equity and profits.

Section A

Pro-Forma Profit and Loss Statements

You Can

If you think you are beaten, you are

If you think you dare not, you don't

If you'd like to win but you think you can't, you won't

If you think you're outclassed, you are

Think big and your deeds will grow

Think small and you fall behind

Think that you can and you will

It's all in the state of mind

Section A – Pro-Forma Profit and Loss Statements

Self Study Booklet

Profit Planning With Pro-Forma Statements

Profit planning is the process surrounding a forecast and plan of your firm's profit performance and financial position. The primary tools used in this effort are the pro-forma financial statements.

As a management tool, profit planning provides answers to such vital questions as:

- What effects will long-term plans have on my business's financial position and how will this be reflected on the financial statements?
- What level of profits will planned operations produce?
- Approximately what total investment in current and fixed assets is required to support planned operations, and to generate the target level of profit?
- Approximately how much outside financing will be required to accommodate long-term plans?
- What is the minimum level of sales that will have to be generated to break even and earn the target level of profit?

The Concept of the Pro-Forma Profit and Loss Statement

Pro-forma, as used in the context of planning, means projected or "as if." A pro-forma profit and loss statement then, is a projected statement prepared as if forecast conditions and planned activity had actually occurred. The statement is prepared in the same format as its historical counterpart, but reflects estimated values based on planning assumptions rather than actual events.

The pro-forma profit and loss statement depicts the effect of planned operations on sales, expenses and profits for a given planning horizon. Technically, the time period covered by the pro-forma profit and loss statement depends on the degree of certainty that you have about the future.

1. Getting Started – Create a current profit and loss statement

To prepare your pro-forma profit and loss statement, you must have access to historical information. For an established business, gather your profit and loss statements for the past three years. By doing so you can compare and analyze the data for the past three years and depict trends enabling you to make more accurate forecasts. For a newer business with little or no historical data, create a current profit and loss statement.

<u>Student Activity:</u>

- Gather your profit and loss statements for the past three years.
- Create a current profit and loss statement.
- Analyze the trends:
    - Are sales increasing or decreasing? If so, by what percent?
    - What sales department is showing the most increase?
    - What sales department is showing the least increase?
    - Have the gross profit margins increased or decreased?
    - Have expenses increased? If so, by what percent?
    - Have net profits risen?

2. Estimate Sales Levels

Preparation of a pro-forma profit and loss statement begins with a forecast of expected sales. Sales serve as the major revenue item on the profit and loss and is the basis on which expenses and profits are predicted.

Sales forecasting is one of the most difficult steps in the process and is generally complex. To say “sales will increase by 10% next year” is not a good method. It is an arbitrary growth figure and doesn’t allow for seasonal fluctuation. The sales budget should be based upon honest attempt to predict the sales for the next year month by month. If your business has an established sales history, then sales should be forecast based on that history. Historical sales by month should be converted to percentages of the yearly sales. This will show the seasonality of sales. As an example, Mary’s Gift Shop has the following sales data for last year:

Mary's Gift Shop

Month	Sales	Percent
January	$11,450	4.4%
February	8,600	3.3%
March	13,200	5.1%
April	18,500	7.2%
May	24,300	9.4%
June	28,800	11.1%
July	25,500	9.9%
August	21,000	8.1%
September	16,400	6.4%
October	18,400	7.1%
November	29,500	11.4%
December	40,800	16.6%
Total Sales	*$258,450*	*100.0%*

Student Exercise:

Mary's Gift Shop needs to prepare their monthly sales estimate for next year. After carefully considering and analyzing the market trends, Mary estimates her next year sales to be $275,500. Based on last year's monthly percentages, calculate the monthly sales estimate for the upcoming year.

January	$______________	_________%
February	$______________	_________%
March	$______________	_________%
April	$______________	_________%
May	$______________	_________%
June	$______________	_________%
July	$______________	_________%
August	$______________	_________%
September	$______________	_________%
October	$______________	_________%
November	$______________	_________%
December	$______________	_________%
Total Sales	$275,500	100%

Student Activity

1. Calculate your monthly sales percent for last year.

January	$________________	________%
February	$________________	________%
March	$________________	________%
April	$________________	________%
May	$________________	________%
June	$________________	________%
July	$________________	________%
August	$________________	________%
September	$________________	________%
October	$________________	________%
November	$________________	________%
December	$________________	________%
Total Sales	$________________	100%

2. Estimate your annual sales forecast for next year.
   - Were there changes in sales over the past three years?
   - What happened to affect sales?
   - Was there a change in competition?
   - Were there changes in technology to affect sales?
   - Were there downturns in economic conditions?
   - Have traffic patterns changed?

Your annual sales forecast for the next year $____________________

3. Calculate your monthly sales for the next year.

January	$_________________	_________%
February	$_________________	_________%
March	$_________________	_________%
April	$_________________	_________%
May	$_________________	_________%
June	$_________________	_________%
July	$_________________	_________%
August	$_________________	_________%
September	$_________________	_________%
October	$_________________	_________%
November	$_________________	_________%
December	$_________________	_________%
Total Sales	$_________________	100%

1. Identify Variable Costs

As sales volume increases or decreases, the dollar amount of those costs directly related to sales also increases or decreases proportionately. These are referred to as **variable costs** because they vary directly with changes in sales.

Some examples of variable costs are:

Cost of goods sold	Sales commissions
Freight in	Delivery expense
Direct labor	Subcontract work
Vehicle mileage	Supplies

<u>Student Activity</u>
Identify your variable costs:

______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________

2. Identify Your Fixed Costs

As opposed to variable costs, there are cost items that are unaffected by changes in sales. This group of costs is referred to as **fixed costs**.

Some examples of fixed costs are:

Rent	Full-time employees
Administrative salaries	Insurance
Lease expense	Utilities

<u>Student Activity</u>
Identify your fixed costs:

______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________
______________________________ ______________________________

3. Determine Your Gross Profit Margin

To adequately prepare an accurate pro-forma profit and loss statement, you must determine your historical gross profit margin. Utilizing your most recent profit and loss statement, calculate your gross profit margin percent by dividing the gross profit dollars by the sales. Example: ABC Hardware has annual sales of $465,500 and their gross profit was $162,925. The gross profit margin percent is calculated by dividing $162,925 (gross profit) by $465,500 (sales).

$162,925 divided by $465,500 = 35%

Student Activity

Determine your gross profit margin percent ____________%

4. Determine Your Profit Level

Profit planning is a matter of concern both to business owners and outside parties such as banks and investors. While cash flow is an important short-term consideration, profits are a key long-term indicator of a firm's progress. It is important that profit levels are determined so that future financial goals of the business can be met.

Student Activity

Determine the profit needed to cover all costs to the business ____________%

5. Create Your Business Budget

Given the sales forecast, the expenses associated with projected revenue must be established. The first step is to apply the percent-of -sales method to the **variable expenses**. This method is based on the assumption that these expenses vary with sales, and the relationship between the two can be expressed as a percentage. For example, if the cost of goods sold has historically averaged 57% of sales, and the forecast sales are $100,000, then the cost of goods would be estimated at $57,000 ($100,000 x 57%). The same procedure would be used to establish estimates for each of the remaining variable expenses. For example:

Expense item	Percent of Sales
Direct Wages	11.0%
Advertising	2.9%
Vehicle Expense	2.6%
Subcontract Work	15.8%

Fixed costs, since they do not fluctuate with the increase and decrease in sales, generally are estimated at dollar value versus percent-of-sales method. For example:

Expense item	Dollar Amount
Rent	$800
Insurance	$400
Office Wages	$3,600
Telephone	$175
Utilities	$350
Lease Expense	$450

Student Activity

Prepare your expense budget. ***A word of caution***! If economic or market conditions differ from last year, the expense budget may have to be adjusted accordingly.

6. Create Your Pro-Forma Profit and Loss Statement

Based on your estimated sales, gross profit margin, variable and fixed costs, create your pro-forma profit and loss statement. Create your pro-forma to include the remainder of the current year. Then, create a pro-forma profit and loss for the upcoming 12 months.

Section B– Pro-Forma Balance Sheets

To make profits, you need sales……

To make sales, you need assets……

To acquire assets, you need a supply of funds!

Section B– Pro-Forma Balance Sheets

Self Study Booklet

The pro-forma balance sheet plays a crucial role in the profit planning process. This statement serves two important purposes:

1. It provides a financial profile of planned operation.

2. It is used to make a rough estimate of the financing that will be Required to support long-term plans.

Long-term growth imposes requirements on a firm's assets. As sales increase, many types of assets such as inventory and accounts receivable increase proportionally. The balance sheet shows the cost of growth in terms of decreased solvency, liquidity and increased risk to the firm. By projecting the funds needed for sales growth and examining alternative sources for the funds, we can manage growth and guard against the firm "growing itself out of business."

A pro-forma balance sheet can be prepared by using assumed relationships between balance sheet items and projected sales. Over long planning horizons (more than one year) most assets, liabilities and equity items will vary proportionately with sales. Consequently, the percent of sales method is an effective technique for projecting most balance sheet items. Where necessary, percent of sales can be adjusted or replaced by management-determined values.

The Percent of Sales Method

The percent of sales method measures the variable assets and liabilities that a firm needs to support a given level of sales. Each variable asset and variable liability for a completed year is divided by sales for that year. The resulting percentage can then be applied to projected sales for future years to determine the new investment needed for each category.

A variable asset is an asset that increases or decreases as sales rise or fall. For example, more sales would mean more accounts receivable - even though the firm was collecting them just as efficiently as before the sales increase.

A variable liability is a liability that increases to support the variable assets, which increases as a result of sales increase. For example, more sales would require that more inventory be kept on hand. This, in turn, would mean carrying more accounts payable – even if the firm maintained its accounts payable turnover at the same rate as before the increase.

Financial Gap is the difference between the funds needed to buy new assets and the funds available. This is the amount that the firm will have to borrow in order to support increased sales.

Sustainable growth is the rate at which a company can grow while maintaining a targeted debt-to-worth ratio. In other words, how fast a firm can grow if it is to maintain a specified level of financial risk.

1. Getting Started – Create a Current Balance Sheet

Complete your current balance sheet. The balance sheet is usually prepared on the last day of the month.

Balance Sheet As Of ____________

ASSETS		**LIABILITIES**	
Current Assets:		*Current Liabilities*:	
Cash	$____________	Accts Payable	$____________
Accts Rec	$____________	Notes Payable	$____________
Inventory	$____________	Payroll Tax	$____________
Prepaid Exp	$____________	Sales Tax Pay	$____________
		Interest Pay	$____________
Total Current Assets	$____________	*Total Current Liabilities*	$____________
Fixed Assets :		*Long-Term Liabilities* :	
Land	$____________	Note Payable	$____________
Buildings	$____________	Note Payable	$____________
Equipment	$____________	Note Payable	$____________
Vehicles	$____________	Note Payable	$____________
Fixtures	$____________	Note Payable	$____________
Less Depre	$____________		
Total Fixed Assets	$____________	Total Long-Term Liabilities	$____________
Intangibles	$____________	Owners Equity	$____________
TOTAL ASSETS	$____________	TOTAL LIABILITIES PLUS EQUITY	$____________

2. Evaluate Profitability and Efficiency

To make profits, you need sales --- and to make sales, you need assets --- and to acquire assets, you need a supply of funds. This simple framework outlines what is involved in the financial management process. And what's the "glue" that supports this framework? Efficiency! First, in converting assets to sales, and second, in converting sales to profits. The efficient firm will need fewer assets to produce the same sales; thus, since they need to acquire fewer assets, they will need less capital.

The income statement shows the rewards of growth – in increased sales and increased profits. To evaluate the profitability of your business, determine your net profit for the past three years.

Net Profit Dollars Year 1 $__________ Year 2 $________ Year 3$________
Net Profit Margin Year 1 __________% Year 2 ________% Year 3 _______%

Describe the trend.

____
____
____
____
____

To evaluate your efficiency, calculate the following balance sheet ratios for the past three years.

Current Ratio (Cur Assets/Cur Liabil)	___________	___________	___________
Liquidity Ratio (Cash + Accts Rec _Current Liabil)	___________	___________	___________
Debt-to-Net Worth (Total Liabilities Net Worth)	___________	___________	___________

Describe the trend

____
____
____
____
____

3. Evaluate Cash Flow

Your balance sheet is just like a sponge, except that it soaks up cash rather than water. As a sponge nears its capacity to absorb additional water, it becomes increasingly less efficient. The same occurs with your balance sheet, and this phenomenon can cause serious cash shortages.

To evaluate your cash flow, you will need your year-end balance sheets for the past two years and your most current balance sheet. Next, calculate the percent of total assets for cash, accounts receivable, inventory, and fixed assets for all three-time periods. To do so, cash, accounts receivable, inventory and fixed assets are divided by total assets. For example, if total assets on your balance sheet for year 1 are $480,000 and cash is $12,500, then cash would be 2.6% of total assets ($12,500/$480,000). If accounts receivable are $39,500, then accounts receivable would be 8.2% of total assets ($39,500/$480,000).

	Year 1	**Year 2**	**Current**
Cash	________%	__________%	_________%
Accounts Receivable	________%	__________%	_________%
Inventory	________%	__________%	_________%
Fixed Assets	________%	__________%	_________%

Describe your cash flow trend

____
____
____
____
____

4. Determine Asset Change Needs.

As previously stated, growth is reflected on the profit and loss statement as increases in sales and (hopefully) profits. The "cost of growth" is generally reflected on the balance sheet in changes in assets and debt.

Your pro-forma profit and loss statement projects your increase sales and profits for the upcoming year. To determine the expected changes in assets, you need to:

First: Evaluate which assets vary with sales. Normally, cash, accounts receivable, and inventory are considered variables.

Second: Evaluate projected levels of assets that do not vary with sales. Generally, these include land, buildings, equipment, vehicles and furniture and equipment. These assets do not vary constantly as a "percent of sales" but are projected based on company need and capacity. Determine any needed changes.

Third: Calculate each "variable" asset as a percent of sales. For example, sales for last year were $600,000. Accounts receivable were $108,000. The "percent of sales" for accounts receivable is 18% ($108,000/$600,000).

Variable Asset	**Percent of Sales**
Cash	____________%
Accounts Receivable	_____________%
Inventory	_____________%

Fourth: Apply the percentages derived in step three to your new projected sales level on your pro-forma profit and loss statement. For example, your new projected sales level is $900,000. Your new level of accounts receivable would then be $162,000 ($900,000 x 18%)

New projected sales	$________________
Cash	$________________
Accounts Receivable	$________________
Inventory	$________________

5. Determine Debt Change Needs.

As previously stated, increase sales and growth create a need for additional money to finance an increase level of assets. The main source of this money generally is from creditors. To determine your changes in debt;

First: Evaluate which liabilities vary with sales. Normally, accounts payable and accrued expenses (payroll taxes, sales tax, etc.) are considered the variables.

Second: Evaluate your long-term liabilities. These generally will not vary as "a percent of sales" but are projected based on company need if a large capital expenditure or expansion is anticipated.

Third: Calculate each "variable" liability as a percent of sales. For example, if sales for last year were $600,000 and accounts payable were $90,000, then the percent of sales for accounts payable would be 15% ($90,000/$600,000).

Last year's sales $____________________

Accounts Payable ____________% (Percent of sales)

Accrued Expenses ____________% (Percent of sales)

6. Create Pro-Forma Balance Sheet

In the previous steps, the variable assets and liabilities were calculated as "a percent of sales." In addition, the fixed assets and long-term debt were evaluated and increased based on company need and projections. Our next step, then, is to project your new balance sheet.

First, project the new net worth by taking existing net worth and adding projected net profit shown on the pro-forma profit and loss statement. Next, taking your most current balance sheet, begin at cash and move down the assets to total assets. Then, move across to total liabilities plus net worth. Finally, move up the liability side. The final figure filled in is notes payable – this is your financial gap (the amount that you will have to borrow to support your increase in sales).

The following case study will better explain this process and walk you through the steps needed to project your balance sheet.

Case Study

Evergreen Distributing is a rapidly growing company. In the year just completed, sales reached $600,000. If they continue on their present course, they expect their sales to rise to $900,000 next year.

They expect profits to remain the same as they were this year: Net profits were 3% of sales.

For the year just completed, sales of $600,000, the balance sheet read:

		% of Sales			% of Sales
Cash	$24,000	4%	Notes Payable	0	Financial Gap
Accounts Receivable	108,000	18%	Accounts Payable	$90,000	15%
Inventory	156,000	26%	Accruals	42,000	7%
Total Current	288,000		Total Current	$132,000	
Equipment	150,000	25%	Long Term Liabilities	$140,000	
Land/Building	120,00		Total Liabilities	$272,000	
Total Fixed	270,000		Net Worth	286,000	
Total Assets	$558,000		Total Liabilities & Net Worth	$558,000	

TO DO: Calculate the balance sheet that Evergreen will have if they achieve their projections of $900,000 in sales – and then evaluate the financial health of the firm using your balance sheet ratios.

Given: Projected Sales: $900,000 Projected Net Profit: $27,000

Cash	$______________	4%	Note Payable	$____________	
Accounts Receivable	$______________	18%	Accounts Payable	$____________	15%
Inventory	$______________	26%	Accruals	$____________	7%
Total Current Assets	$________________		Total Current Liabilities	$_____________	
Equipment	$________________	25%	Long-Term Liabilities	$140,000	
Land and Buildings	$ 120,000		Total Liabilities	$_____________	
Total Fixed Assests	$________________		Net Worth (Old NW = $286,000)	$_____________	
Total Assets	$__________________		Total Liabilities & Net Worth	$______________	

Reminder: Begin at Cash and move down the assets side to Total Assets. Then, move across to Total Liabilities & Net Worth. Then, move up the liabilities side. The final figure filled in is Notes Payable.

Balance Sheet Ratios

	At $600,000	At $900,000
Current Ratio (CA/CL)	___________	__________
Quick Ratio (Cash+A/R/CL)	___________	__________
Debt-to-Worth (Total Liab/NW)	___________	__________

Student Activity

Create your pro-forma balance sheet. Utilize the exact same strategies and procedures used in the Evergreen Distributing Case Study. Begin at cash and move down the asset side to Total Assets. Then, move across to Total Liabilities and Net Worth. Then, move up the liabilities side. The final figure to fill in is Notes Payable. This is your financial gap or the amount you will need to borrow to support increased sales.

Your Pro-Forma Balance Sheet

ASSETS			LIABILITIES		
Current Assets :			*Current Liabilities*:		
Cash	______________	_____%	Notes Payable	______________	_____%
Accts Rec.	______________	_____%	Accts Payable	______________	_____%
Inventory	______________	_____%	Accruals Pay.	______________	_____%
Total Current Assets	______________		Total Current Liabilities	______________	
Fixed Assets:			*Long-Term Liabilities:*		
Equipment	______________	_____%	Note Payable	______________	
Land	______________		Note Payable	______________	
Buildings	______________		Note Payable	______________	
Vehicles	______________		Total Long-Term Liabilities	______________	
Other	______________				
Total Fixed Assets	______________		Net Worth	______________	
Total Assets	______________		Total Liabilities & Net Worth	______________	

Your Pro-Forma Balance Sheet Ratios

Current Ratio Current Assets/Current Liabilities	____________
Quick Ratio Cash + A/R/Current Liabilities	____________
Debt-to-Net Worth Total Liabilities/Net Worth	____________

Instruction Outline – In Classroom

Section A – Pro-forma Profit and Loss Statements

5 Minutes Welcome — Instructor

Instructor introduces himself/herself and welcomes students.

10 Minutes Introduction of Students — Students

Students introduce themselves and their businesses.

10 Minutes Review Class Objectives and Study Guides — Instructor

Instructor will review class objectives and study guides to be used during the instruction.

10 Minutes Introduction to Section A – Pro-forma Profit and Loss Statements. — Instructor

Students will learn the importance of projecting Profit and Loss Statements for future periods.

20 Minutes Create Current Profit and Loss Statement — Students

Students will create a current profit and loss statement.

15 Minutes Estimate Sales Levels — Students

Based on historical data and current market conditions, students will estimate their projected sales level for next year.

10 Minutes Identify Variable Costs — Students

Students will identify the costs that vary with increases and decreases in sales.

10 Minutes Identify Fixed Costs — Students

Students will identify the costs that remain constant and are not generally affected by increases or decreases in sales.

10 Minutes Determine Gross Profit Margins — Students

Using historical data, students will determine their historical Gross profit margins

10 Minutes Determine Profit Levels — Students

Based on variable costs, fixed costs, and gross profit margins, the desired profit levels will be determined.

30 Minutes Create Business Budget Students

The student will create a twelve-month budget utilizing
The previously determined variable and fixed costs,
The previously determined gross profit margin and net profits.

30 Minutes Create Pro-Forma Profit and Loss Statement Students

The student will create a twelve-month pro-forma
statement for the up-coming year.

10 Minutes Conclusion Instructor

The instructor will briefly overview the topics covered
in this study unit.

Instruction Outline – In Classroom

Section B – Pro-Forma Balance Sheets

5 Minutes	Welcome Instructor introduces himself/herself and welcomes students.	Instructor
10 Minutes	Introduction of Students Students introduce themselves and their businesses.	Students
15 Minutes	Review Class Objectives and Study Guides. Instructor will review class objectives and study guides to be used during the instruction.	Instructor
20 Minutes	Introduction to Section B – Pro-Forma Balance Sheets. Students will identify the crucial role the pro-forma balance sheet plays in the financial management process.	Instructor
20 Minutes	Create Current Balance Sheet The students will create a current balance sheet.	Students
20 Minutes	Evaluate Profitability Students will evaluate profitability by determining and evaluating their net profit for the past Three years.	Students
20 Minutes	Evaluate Cash Flow Students will evaluate their cash flow.	Students
15 Minutes	Determine Asset Change Needs Students will determine needed changes in assets to support the projected change in sales and profits.	Students
15Minutes	Determine Debt Change Needs Students will determine needed changes in debt to support the projected change in sales and profits.	Students
30 Minutes	Create Pro-Forma Balance Sheet Students will create their pro-forma balance sheet.	Students
10 Minutes	Conclusion Instructor will briefly overview topics studied in this class session.	Instructor

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