

Instructions for Constructing the Income and Cash Flow Statements:

- Assign Months to the columns based on when you anticipate opening. For example if you plan on opening in July, the projections will run from July to June.
- Research the seasonality of your business month-by-month. (Some retailers do nearly half of their business in November and December.)
- Provide a separate sheet detailing the assumptions used to calculate each line item.

Worksheet #2 Instructions

Income Statement –

1 a	Actual cash sales receipts
1 b	Sales billed to customers on account (Accounts Receivable). On the Income Statement, these amounts are recorded when billed. You will record this amount on the Cash Flow pro forma when the checks are actually received.
2	Total Sales - Add lines 1a and 1b. The Income Statement portion is done on the accrual method of accounting. This means that sales and expenses are recorded when the transaction occurs regardless of whether you received or paid the actual cash at the same time.
3	Subtract Cost of Goods Sold (CoGS). For now, estimate the percentage your inventory costs you in relation to the amount you sell it for. A typical retailer “keystones” the inventory or doubles the cost which means that CoGS is 50%. Some restaurants can expect CoGS to be 25% to 35%. It is important to distinguish CoGS from actual inventory purchases because it is a more accurate determination of profitability during a period of time. You will record the actual cash payment you made for those goods on the Cash Flow pro forma. CoGS matches the <i>cost</i> of inventory that goes out the door with the sales that came in. Most service businesses will not have a CoGS and will simply skip this line.
4	Total Sales minus CoGS = Gross Profit
5	Variable Monthly Operating Expenses are expense items that change in direct proportions with your sales volume. This could include extra labor after a certain point, the fees a credit card company charges, a royalty paid to a franchiser, etc. For example: 5% franchise royalty on \$12,500 sales is $\$12,500 \times .05 = \625 .
6	Periodic Operating Expenses are items paid annually, quarterly, or randomly. An example is a quarterly insurance premium.
7	Fixed Monthly Operating Expenses – Enter the total from Worksheet #1.
8	Total Cash Operating Expenses – Add all items from line 5 through 7.
9	Non-Cash and Non-Operating Expenses are tax deductible but do not necessarily represent “real” money. In accrual accounting you deduct interest only, not the entire debt payment. This amount will come from a loan amortization table. Leave depreciation blank for now or enter a monthly amount equal to $1/60^{\text{th}}$ the cost of equipment plus $1/400^{\text{th}}$ the cost of any real estate. Owner’s salary/withdrawals are a luxury for start-up businesses. (You get one if there is any money left.)
10	Total Expenses – Add lines 8 and 9a and 9b.
11	Net Profit – This is the projected operating profit for your business prior to any withdrawals or owner’s salary and income taxes.

Worksheet #2
Income Statement

Income Statement Data	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	Month	12 month Total
(1)Sales:														
(a)Cash Sales Receipts														
(b)Billed to Customer on Account														
(2)Total Sales (1a+1b)														
(3)Cost of Goods Sold														
(4)Gross Profit (2-3)														
(5)Variable Monthly Operating Expenses														
(a)														
(b)														
(6)Periodic Operating Expenses														
(a)														
(b)														
(7)Fixed Monthly Operating Expenses (From Worksheet #1)														
(8)Total Cash Operating Expenses (5+ 6+7)														
(9)Non-Cash and Non-Operating Expenses														
(a) Depreciation & Amortization														
(b) Interest on Loan														
(c) Owner's Salary/Withdrawal														
(10)Total Expenses (8+9a+9b+9c)														
(11)Net Profit Before Income Taxes (4-10)														

Notes to the Income Statement (Assumptions):

Worksheet #2-Example
Income Statement

Income Statement Data	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	12 Mo. Total
Sales:													
Cash Sales Receipts	24,310	25,908	22,990	11,909	11,453	13,572	24,597	33,063	71,935	9,584	8,873	11,806	270,000
Billed to Customer on Acct.	2,701	2,879	2,554	1,323	1,273	1,508	2,733	3,674	7,993	1,065	986	1,312	30,000
Total Sales	27,011	28,786	25,545	13,233	12,725	15,080	27,330	36,737	79,928	10,649	9,859	13,117	300,000
Cost of Goods Sold	14,856	15,833	14,050	7,278	6,999	8,294	15,031	20,205	43,960	5,857	5,422	7,215	165,000
Gross Profit	12,155	12,954	11,495	5,955	5,726	6,786	12,298	16,532	35,967	4,792	4,436	5,903	135,000
Variable Monthly Operating Expenses													
Advertising	810	864	766	397	382	452	820	1,102	2,398	319	296	394	9,000
Freight & Postage	68	72	16064	33	32	38	68	92	200	27	25	33	750
Credit Card Fees	169	180	160	83	80	94	171	230	500	67	62	82	1,875
Periodic Operating Expenses													
Insurance	500			500			500			500			2,000
Legal & Accounting	550	50	50	250	50	50	250	50	50	250	50	50	1,700
Misc. Taxes, Licenses, Fees	100			300					250				650
Dues & Publications		50					50						100
Fixed Monthly Operating Expenses (From Worksheet #1)	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	5,566	66,792
Total Cash Operating Expenses	7,762	6,781	6,605	7,128	6,109	6,200	7,425	7,039	8,963	6,728	5,998	6,124	82,861
Non-Cash & Non-Op. Expenses													
Interest on Loan	1,250	1,247	1,244	1,241	1,238	1,235	1,232	1,228	1,225	1,222	1,219	1,215	14,795
Depreciation & Amortization	458	458	458	458	458	458	458	458	458	458	458	458	5,500
Owner's Salary / Withdrawal	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Total Expenses	10,971	9,986	9,808	10,327	9,305	9,393	10,614	10,226	12,146	9,908	9,175	9,298	121,156
Net Profit pre Income Taxes	1,184	2,968	1,887	4,373	3,578	2,607	1,684	6,306	23,821	5,116	4,738	3,395	13,844

Notes to the Income Statement (Assumptions):