**Part III**

**Spring Small Business Series: Seedling to Start Up**

**Part III**

***Using Market Research to Test and Validate Your Business/Product Idea***

**Module Five: Developing Financial Projections for Your Business**

*Use this outline to estimate costs associated with your business.*

1. **List and Estimate Start-Up Costs**

* Marketing and Promotion – business cards, brochures and banners.
* Website – development and website hosting fees.
* Office Furniture, Computers, Equipment
* Office Supplies – envelops, postage, paper, stationary and copy machine ink.
* Software Licenses – Constant Contact and graphic design software.
* Legal and Accounting Fees – accounting software and lawyer fees.
* Licenses and permits – fees for filing papers to operate your business.
* Other

1. **List potential fixed (overhead) costs for your business.**

*Facilities Expenses*

* Rent
* Monthly Internet Fees
* Utilities – Heat, Water, Lights
* Property Insurance
* Real Estate Taxes
* Maintenance

*General and Administrative Expenses*

* Accounting Fees
* Advertising and Promotion
* Legal Fees
* Office Supplies
* Postage
* Website Costs
* Telephone
* Lease Payments for Equipment

1. **Identify indirect labor costs associated with your business**.

* Wages
* FICA – Federal Insurance Compensation Act (6.2%)
* Medicare (1.45%)
* State Taxes (5%)
* Federal Unemployment Compensation (.08%)
* Worker’s Compensation Insurance - Insurance premium
* Consulting Fees
* Professional Fees

1. **Identify variable costs (cost of goods sold) for your business.**

* Labor Costs
* Raw Materials
* Packaging Supplies
* Shipping Costs
* Marketing and Promotion

***Online Sessions 17 & 18: Worksheet***

*Use this worksheet as a guide as you view sessions 17 & 18. See if you can develop similar financial projections for your own business.*

**Step 1: Estimate Annual Sales Revenue**

Average sales price for each item multiplied by the number of items sold.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Small Canvas** | **Medium Canvas** | **Large Canvas** |  |
| Average Sales Price | $25 | $50 | $75 |  |
| X Number of Items Sold | 20  \_\_\_\_\_\_\_\_\_\_\_ | 15  \_\_\_\_\_\_\_\_\_\_\_ | 10  \_\_\_\_\_\_\_\_\_\_\_ |  |
| **=**  **Annual Sales** | **$500** | **$750** | **$750** |  |
|  |  | **Total Annual Sales** | | **$2,000** |

**Step 2: Calculate Average Gross Profit by Category**

Average gross profit is the amount of sales dollar left over after paying for the costs of the products or services themselves also referred to cost of goods sold (COGS) for each product or sales line.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Small Canvas** | **Medium Canvas** | **Large Canvas** |
| Average Sales Price | $25 | $50 | $75 |
| * Average Variable Cost   *(Cost of Goods Sold)* | $10  \_\_\_\_\_\_\_\_\_\_\_ | $25  \_\_\_\_\_\_\_\_\_\_\_ | $45  \_\_\_\_\_\_\_\_\_\_\_ |
| **=**  **Average Gross Profit** | **$15** | **$25** | **$30** |

**Step 3: Calculate Average Gross Profit Percentage**

How much of each dollar of sales income is gross profit. Allows you to calculate how much of your income will be left over after variable costs have been covered.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Small Canvas** | **Medium Canvas** | **Large Canvas** |
| Average Gross Profit | $15 | $25 | $30 |
| ÷ Average Selling Price | $25  \_\_\_\_\_\_\_\_\_\_\_ | $50  \_\_\_\_\_\_\_\_\_\_\_ | $75  \_\_\_\_\_\_\_\_\_\_\_ |
| **=**  **Gross Profit Percentage** | **60%** | **50%** | **40%** |

**Step 4: Calculate Annual Gross Profit by Category**

Annual gross profit indicates the amount of dollars remaining after covering fixed expenses**.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Small Canvas** | **Medium Canvas** | **Large Canvas** |
| Annual Sales | $500 | $750 | $750 |
| X Gross Profit Percentage | 60%  **\_\_\_\_\_\_\_\_\_\_\_\_** | 50%  \_\_\_\_\_\_\_\_\_\_\_\_\_ | 40%  \_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **=**  **Annual Gross Profit** | **$300** | **$375** | **$300** |

**Step 5: Calculate Average Gross Profit Percentage**

Total Annual Gross Sales – Amount of dollars in remaining after covering variable costs for each category of items.

|  |  |
| --- | --- |
| **Annual Gross Profit** |  |
| Small Canvas | $300 |
| + Medium Canvas | $375 |
| + Large Canvas | $300  **\_\_\_\_\_\_\_\_\_\_\_** |
| =  **Total Annual Gross Sales** | **$975** |
| ÷  Total Annual Sales | $2,000  **\_\_\_\_\_\_\_\_\_\_\_** |
| =  **Average Gross Profit Percentage** | **48.75%** |

**Step 6: Calculate Annual Total Fixed Costs**

|  |  |
| --- | --- |
|  |  |
| Misc. Supplies | $50 |
| Insurance | $10 |
| Accounting | $35 |
| Electronic Payment System | $10 |
| Marketing & Communication | $25  **\_\_\_\_\_\_\_** |
| **Total Fixed Costs Per Month** | **$130** |
| (Months) | X 12 |
| **Total Annual Fixed Costs** | **$1560** |

**Step 7: Calculate Break-Even Point**

|  |  |
| --- | --- |
| Annual Total Fixed Costs | **$1560** |
| ÷  Average Gross Profit Percentage | 48.75% |
| **=**  **Break-Even Point** | **$3,200** |

**Step 8: Calculate Excess Revenue**

|  |  |
| --- | --- |
| **Estimated Total Annual Sales** | **$2,000** |
| **-**  Break-Even Point | $3,200 |
| **=**  **Excess Revenue** | **($1,200)** |

**Cutting Fixed Costs**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Misc. Supplies | $50 | $25 |
| Insurance | $10 | $10 |
| Accounting | $35 | $30 |
| Electronic Payment System | $10 | $10 |
| Marketing & Communication | $25  **\_\_\_\_\_\_\_** | $15  **\_\_\_\_\_\_\_** |
| **Total Fixed Costs Per Month** | **$130** | **$90** |
| (Months) | X 12 | X 12 |
| **Total Annual Fixed Costs** | **$1560** | **$1080** |

**Recalculating Break-Even Point**

|  |  |
| --- | --- |
| Annual Total Fixed Costs | **$1080** |
| ÷  Average Gross Profit Percentage | 48.75% |
| **=**  **Break-Even Point** | **$2,215** |

**Recalculate Excess Revenue**

|  |  |
| --- | --- |
| **Estimated Total Annual Sales** | **$2,000** |
| **-**  Break-Even Point | 2,215 |
| **=**  **Excess Revenue** | **($215)** |

**Recalculate Annual Sales Revenue**

Average sales price for each item multiplied by the number of items sold.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Small Canvas** | **Medium Canvas** | **Large Canvas** |  |
| Average Sales Price | $25 | $50 | $75 |  |
| X Number of Items Sold | 25  \_\_\_\_\_\_\_\_\_\_\_ | 20  \_\_\_\_\_\_\_\_\_\_\_ | 15  \_\_\_\_\_\_\_\_\_\_\_ |  |
| **=**  **Annual Sales** | **$625** | **$1000** | **$1,125** |  |
|  |  | **Total Annual Sales** | | **$2,750** |

**Step 9: Calculate Net Profit**

|  |  |
| --- | --- |
| **Excess Revenue** | **$1239.50** |
| X  Average Gross Profit Percentage | 48.75% |
| **=**  **Net Profit** | **$604.26** |

**\*Sole Proprietor report all this Schedule C of 1040 Income Tax**

**If you have created an LLC or S – Corp number 1120s Federal Income Tax. Share of net income or loss is them reported on your personal 1040.**

**Certain States will also charge state income tax.**