WORKSHEETS

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 4

INCOME STATEMENT INSTRUCTIONS

1	Sales - Actual ***cash*** sales receipts
2	Net Sales/Revenue – Insert Total Sales. 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 percent. Some restaurants can expect COGS to be 25 percent to 35 percent. 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 *cost* 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	Gross Profit = Total Sales minus COGS
5	Operating Expenses – From Worksheet #3 – Monthly Operating Expenses in the "Getting Started" section of this workbook.
6	Total Expenses – Add all operating expenses.
7	Net Profit = Gross Profit minus Total Operating Expenses (Line 4 – Line 6) This is the projected operating profit for your business prior to any withdrawals or owner's salary and income taxes.

For assistance in developing the Income Statement, please contact your local Longwood Small Business Development Center.