

## Chapter 5 Developing a Financial Plan

**SOFTWARE  
ACTIVITY  
(OPTIONAL)**

### Spreadsheet Application

#### Preparing a Projected Income Statement

**Objective:** Analyze and project income and expenses for a new business venture.

#### Practice Situation

Natasha Lee is developing a business plan for a new venture called Southwest Lighting and Sound Productions in Austin, Texas. Natasha has worked as a freelance lighting and sound technician in the area and has identified a strong demand for a lighting and sound equipment rental business. She has several clients with ongoing needs for contract lighting and sound production.

Part of the business plan for Southwest Lighting and Sound Productions should include projected financial statements. Prepare a projected income statement for the first 12 months of operation (January–December) based on the information below.

Based on her research, Natasha estimates her income will be \$1,500 a month for lighting equipment rentals and \$2,500 a month for sound equipment rentals in the first six months of business. As she becomes established, she anticipates an increase of 30 percent in monthly equipment rental revenues for months 6 through 12. Natasha has agreements with one club owner for three sound production gigs per month at \$1,200 each. She estimates that she can secure three lighting production contracts each month at \$900 each. In July, the city hosts the South by Southwest Music Festival. She has a contract to produce seven stage performances for a total fee of \$8,400 for the festival. Natasha estimates her monthly expenses as follows:

Advertising: \$250 Jan–June; \$150 July–Dec	Office telephone and cell phones: \$145
Electric & water utilities: \$75	Payroll tax expenses: \$650
Equipment maintenance: \$100	Salary for assistant: \$2,000
Fuel for delivery van: \$65	Salary for Natasha: \$3,500
Insurance: equipment \$355, van \$120, liability \$250	Salary for technician: \$2,500
Interest expense on equipment loan: \$165	Storage facility rent: \$800
Office rent: \$400	Van maintenance: \$50

<b>Projected Income Statement</b>				
	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>April</b>
<b>Revenue</b>				
Sound Equipment Rental Income				
Lighting Equipment Rental Income				
Sound Production Fee Income				
Lighting Production Fee Income				
<b>Total Revenue</b>				
<b>Expenses</b>				
<b>Fixed Expenses</b>				
Office Rent				
Storage Facility Rent				
Insurance: Equipment				
Insurance: Delivery Van				
Insurance: Liability				
Interest Expense				
Salaries Expense				
Payroll Tax Expense				
<b>Total Fixed Expenses</b>				
<b>Variable Expenses</b>				
Advertising				
Equipment: Maintenance & Repair				
Utilities: Electricity and Water				
Utilities: Telephone				
Delivery Van: Fuel				
Delivery Van: Maintenance				
<b>Total Variable Expenses</b>				
<b>Total Expenses</b>				
<b>Net Income (Loss)</b>				
<i>Continue spreadsheet data for May through December.</i>				

**Spreadsheet Directions**

1. Start your spreadsheet software program and open problem **SA18.xls**.
2. Record the revenue projections for equipment rentals and production fees for January through December. Remember to account for the increases that the team projects. **Note:** *Format all dollar amounts to Currency, decimal places 0.*
3. Insert formulas to compute the amounts for Total Revenues.
4. Record the fixed and variable expense estimates for the business.
5. Insert formulas to compute Total Variable Expenses, Total Fixed Expenses, and Total Expenses.
6. Insert formulas to calculate Net Income (Loss).
7. Perform your calculations and complete the spreadsheet, then save your work to a new file labeled **SA18\*\*\*.xls**. (Replace \*\*\* with your initials.)
8. Print out a copy of your work if your teacher has instructed you to do so.

**Interpreting Results**

1. What is the total of the variable expenses? \_\_\_\_\_
2. What is the total of the fixed expenses? \_\_\_\_\_
3. What is the total of all expenses? \_\_\_\_\_
4. What Net Income or Loss is realized in the first month of operation? In July? Explain.  
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5. What Total Income or Loss is realized for the first year of operation? \_\_\_\_\_

