

Evaluating Your Financial Needs

Chapter 24

Unit 6

Performance Objectives:

You will create a personal budget using Microsoft® Excel. You will determine how much capital you have available for start-up costs and how much extra capital you will have to find.

Evaluation Criteria:

Successful completion of this chapter requires you to:

- § Read about why you need to create a personal budget.
- § Outline your monthly expenses.
- § Create a personal budget in Microsoft® Excel.
- § Analyze your personal budget to determine how much start up and working capital you will need.

Task 1: Why a Personal Budget?

Read the information below about the reasons for creating a personal budget.

Most small business owners need some kind of financial help to start their businesses. Some people borrow from family, or for smaller amounts, use credit cards. For larger amounts, most small business owners borrow from traditional lenders such as banks (FYI: most banks require a minimum loan of \$5,000).

It is necessary to look at your personal financial situation at this point. Banks and other lenders will want to see a statement of your personal finances before they will lend you any money. You will find most banks require that the borrower put some money up front (just as you do when buying a car or a house), usually 20 percent of the loan amount. So, for example, if you need \$100,000, the bank may ask you to put up \$20,000 and will lend you \$80,000. This gives the lender confidence in your commitment and ability to repay the loan.

How much do you need to borrow? Do you have enough equity available to back up your loan?

In this chapter you will use Microsoft® Excel to create your personal or family budget. After working with your personal budget, you should be aware of what kind of financial resources you have available for investing in your company and how much you will need to borrow.

Task 2: Monthly Expenses

Think about your day-to-day life and your monthly expenses and income. Write down your income and the amount you spend each month on the items in the list on the next page. (Divide the amount of any quarterly bills by three. Divide the amount of any half yearly bills by six.)

Monthly Income =

Regular monthly payment

- Rent
- Car payments
- Appliances, stereo, TV payments
- Credit card payments
- Health insurance payments
- Savings plan

Household operating expenses

- Telephone
- Gas or electric
- Water
- Repairs/maintenance

Personal expenses

- Clothing
- Laundry
- Medications
- Doctor visits, dental exams
- Education
- Gifts
- Travel
- Books, newspapers, magazines, CDs
- Gas
- Auto upkeep
- Spending money
- Hobbies, sporting licenses, etc.
- Miscellaneous

Food

- Groceries
- Eating out

Task 3: Budget in Microsoft® Excel

Create your budget in Microsoft® Excel. Refer to the Appendix if you need a refresher in Microsoft® Excel.

Create your budget. After you create it you will be analyzing it to help determine your financial needs. In your business you will also be preparing budgets and analyzing your financial needs.

Task 4: Analyzing Your Personal Budget

Look at your budget and answer the questions below.

1. What are your total monthly expenses?
2. What is your total monthly income?
3. What is your balance?

Task 5: What Do You Need?

Read through the information and fill in the charts. You may need to look at your financial reports that you developed earlier again.

Part 1: Start-Up Costs

Most small businesses need some kind of financial assistance to get up and running. In Chapter 8, you calculated your start-up costs. If you need to make any changes to your start up costs, you can do that below; otherwise, copy your figures from Chapter 8.

One Time Costs

Licenses	
Permits	
Legal Fees	
Letterhead, Business Cards, etc.	
Deposits with Public Utilities	
Installation of Fixtures	
Starting Inventory	
Remodeling	
Equipment and Fixtures	
Cash	
SUBTOTAL	

Monthly Expenses

Rent	
Owner's Salary	
Employee Salaries	
Advertising	
Telephone	
Internet	
Electric	
Insurance	
Shipping and Delivery	
Legal Fees	
Taxes	
SUBTOTAL	
Total Start-Up Costs	

Part 2: Working Capital

You calculated your break-even point in Chapter 13. After doing your financial projections you should have been able to determine how many months it will take for you to break-even and start making a profit. How will you fund your business in the interim? It takes many small businesses several months before they become profitable.

Look at your monthly expenses in the table on the previous page, and your financial projections, then determine how much total working capital you will need.

Explain below why you need this amount.

Total working capital required: _____