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BUSINESS PLAN

(PURPOSE-CONTENTS—MARKETING PLAN—OPERATIONAL PLAN—ORGANIZATIONAL PLAN AND FINANCIAL PLAN WITH PROJECTIONS)

A business plan is a written document that defines the business goals, marketing activities, method of production, managerial strengths, and expected financial results for a specific time period. A business can be seen as a document that commercializes the business idea as a whole towards potential investors and stake-holders. A business plan should justify and describe the business idea and further business development in a clear and adequate manner. It should not merely aim at emphasizing the strengths of the company, but rather at presenting a realistic portrait of its problems, risks and obstacles. In addition to this, appropriate solutions should be proposed and discussed in detail.

FEATURES OF BUSINESS PLAN

Basically a successful business plan has five important features :

1. short- and long-term objectives are clearly depicted.
2. A careful description is given of how the objectives can be achieved in realistic general conditions.
3. A description is given of how the realization of the plan will meet the expectations of the investors.
4. It shows the organizational vision, mission and objectives and how these can be achieved.
5. The present and future organizational set up, marketing plan, financial plan and operational plan.

PURPOSES OF BUSINESS PLAN

A feasible business plan serves the following purposes :

Business Plan is used to communicate the business idea

First-time entrepreneurs must be able to effectively communicate the business idea to people who may have an interest in the business, e.g. the investors and the financiers. The plan is used to attract investment capital, secure loans, and to attract strategic business partners. The business plan must be a realistic look at every phase of business and it must show that the organization has thoroughly thought out ways to overcome potential problems or obstacles. A business plan can show whether a business has a realistic ability to generate a profit. It also allows the entrepreneur to track, monitor, and evaluate progress. And whether the idea has a realistic ability to generate a profit.

Business Plan is used as a Management control tool

The plan is also used as a management tool that establishes timelines and milestones that the organization wishes the business to accomplish. By comparing actual accomplishments to set goals, the organization will be able to gain a clear picture of what aspects of the business are succeeding and also which areas need additional focus on into the future.

Business Plan is used to Plan the various phases of the business

A well-prepared plan will identify hardships and obstacles that will need to be avoided or overcome to make the business successful. Creating a plan that outlines where the organization wants the business to go, prepares for successfully leading the business in the future.

USERS OF BUSINESS PLAN

The users of business plan can be classified into two :

(A) External Users of Business Plan

(B) Internal Users of Business Plan.

(A) External Users of Business Plan

From an external point of view the business plan represents the main financing tool of the organization. The lending institutions are really interested in business plan Depending on the type of financing and stakeholder relations, various aspects are weighed up and dealt with in different ways in a business plan. Various external users of business plan are :

(i) ***Venture capital firms*** : As a rule, venture-capital and private-equity investors nowadays only consider business cases which are well represented by a business plan. When reading a business plan, the investors are primarily interested in good and relevant arguments that promise business growth. A venture capital firm is more interested in :

(a) The company's success on the market,

(b) The feasibility of the plan in order to achieve its business objectives,

(c) The unique selling proposition of the products and services

(d) The quality and experience of the management team and

(e) The financial prosperity of the organization.

(ii) ***Financial institutions*** : When granting credits, investment banks focus on one main question : when and how the repayment of the credits and interests will be made. In order to minimize risks, banks usually ask for securities. That is why credit applications addressed to banks should provide more than a list of current and past annual accounts. Moreover, banks will also ask to what extent the companies are prepared for possible setbacks, and how they will be able to overcome such critical situations.

For these reasons banks more and more often demand professional business plans when considering applications for credits. Banks expect business plans to give qualified insight into : the enterprise strategy, the management, the organization, the market, the competitors, the products and the current and future financial and profit situation of the enterprise.

(iii) ***Strategic alliances*** : The formation of strategic alliances by young and growing companies within the framework of research projects, product design, marketing, etc. is gaining increasingly in importance. A strategic alliance is usually the consequence of :

(a) financial backing or

(b) Access to well-established distribution channels.

Such an alliance may well succeed over several years for the benefit of all parties. The majority of companies, however, request a business plan before consenting to any long-term business relations or obligations within the framework of a strategic alliance.

(iv) ***Mergers and acquisitions*** : Acquisitions present an alternative for company expansion, while selling a company may be seen as the way out of a solvency crisis. Companies that are looking for acquisition usually request a detailed business plan that will support their evaluation and selection.

(v) ***Customer and marketing relations*** : Winning a major customer or an agreement with a wholesaler is a particularly crucial step towards success for many growth companies. Most big companies, however, are very reserved and precautious before starting negotiations with rather small and unknown companies. In such cases, a convincing business plan may clear doubts and prove decisive for inspiring confidence, opening negotiations and making further decisions. Hence, business plans effectively help to open doors to potential customers, markets and suppliers.

(B) Internal Users

A business plan also serves as a valuable management tool from an internal viewpoint of the company.

(i) ***Management*** : A systematically elaborated and regularly updated business plan, with a profound insight into all business matters, helps the management to efficiently plan the company's development and prepare the necessary modification measures in a structured way. Such a business plan can serve as a guide to the daily decision-making and as a control tool in managing the current business. The joint realization of the business plan by the management team ensures an overall commitment to the company goals and controls. Achieving this commitment on the management level is most significant for the successful implementation of the plan.

(ii) ***Branches*** : Business plans make a significant contribution to the development of companies which have branches in different locations. By using business plans for each branch, the top management can on the one hand guarantee site-related business planning and on the other hand, continually control performance as well as the attainment of the business objectives. Further-more, the long-term objectives of the entire company can be balanced by these indicators

COMPONENTS OF BUSINESS PLAN (SAMPLE BUSINESS PLAN)

Business plans are generally outlined in the following manner and include these important elements :

Cover sheet

Name of business, owner(s), address(es), phone number(s), and date.

Statement of purpose

Briefly state the objectives of the business plan, including the amount, type, terms, and proposed uses of financing requested.

Table of contents

Executive Summary : Summarize the key points and major findings in the business plan sections that follow. The executive summary is typically the last item written in a business plan.

Market Plan :

General Market Trends : Outline the key market determinants (price, quality, service, methods of delivery); local, regional, or national market area; type of market sector (private and/or public).

Competition : Identify the relative strengths and weaknesses of your main competitors and the basis for successful competition with them (better prices, quality, service, etc.).

Market Projection : Project the market share and sales volume the project for the business in the target market.

Financial Plan :

Capital Requirements : Indicate the amount of funding needed for startup, expansion, or buyout.

Structure of Financing : Equity and debt financing secured or requested to meet the business's capital requirements.

Financial forecasts : Forecast the balance sheets, statements of operations, and statements of cash flows for the next three years.

The forecasted statements of operations and cash flows should be presented on a monthly basis for the first year and on an annual basis for the second and third years.

Explanatory Notes to Financial Forecasts : Identify the key assumptions that the financial forecasts are based upon.

Key Financial Ratios and Measures of Performance : Include debt/equity and debt coverage ratios, rate of return on equity and assets, accounts receivable, and inventory turnover rates.

Break-even Analysis : Calculate the volume of sales needed to cover all costs (or breakeven) for the business.

Organization and Management

Organizational Intent : It describes the vision, mission, objectives and goals of the organization.

Legal Form of Organization : Describe the organizational form you have chosen for your business (sole proprietorship, partnership, corporation, joint venture, or cooperative) as well as the legal and financial implications of your choice.

Management Plan : Outline key management position descriptions and reporting relationships within the organization. This should include the names of key management personnel, a brief description of qualifications, and an organizational chart depicting reporting relationships.

Training Plan : For startup and expansion plans, indicate the training needs encountered by the business and how they will be addressed (seminar, workshop, etc.).

Operational Plan :

Product / Service Description : Describe the major products or services you will sell.

Key Production features : Identify Unique Selling Proposition (USP), auxiliaries.

Location aspects

Plant size, Manufacturing process and other utilities.

I. EXECUTIVE SUMMARY

The executive summary compiles the essential statements and conclusions of the business plan in a very concise form. For the majority of stakeholders the executive summary will present the most important section of the business plan.

Investors, bankers and representatives of investment groups get lots of business plans from the executive summary. Indeed, the stakeholders may not read the whole documents. But they usually read the executive summary first, in order to quickly check, whether a review of the complete document would be worthwhile.

Points to remember while preparing executive summary

1. Provided the executive summary sounds promising, the reader will feel encouraged to read the whole business plan. On the other hand, if the executive summary does not convince at first sight, even a good business plan could be rejected. Hence, avoid postponing the essential information to the later sections of your business plan.
2. Figures and facts resulting from the data analysis must be perfectly represented. Otherwise, readers will doubt and question the plausibility of the whole business plan.
3. Executive summary should provide the investor with convincing arguments and clear formulations in order to avoid raising any kind of skepticism.
4. The investor should understand the points of the business plan merely by reading the executive summary.
5. An effective executive summary includes all the key elements of a business plan on just two or three pages.

Key ingredients of Executive Summary

1. ***An outline of the enterprise strategy with emphasis on the success factors*** **:** The executive summary should provide a short survey of the strategic goals, business idea and key data relevant to success, e.g. revenue, profit and profitability in the last three years (for existing business), as well as your plan for the next five years for existing as well as new business).

2. ***A presentation of the key qualifications of the management team which will guarantee the success of the company*** **:** Make sure that the executive summary describe the contribution management team will make to successful business initiatives. The investor is interested in the structure of the management team and their qualifications.

3. ***A short description of the market, the success formula and unique selling propositions on the market*** **:** An executive summary report must convince the investor that the products and innovations will prove to be competitive on the relevant market. Therefore, it is especially important to know the target market, its trends, the needs and preferences of customers and the services provided by the competitors.

4. ***A concise presentation of the competitive advantages*** **:** An executive summary report show in brief with which strategies planned to operate successfully on market. Explain the operative strategies (manufacturing, procurement, logistics and marketing) to the stakeholders in a few sentences.

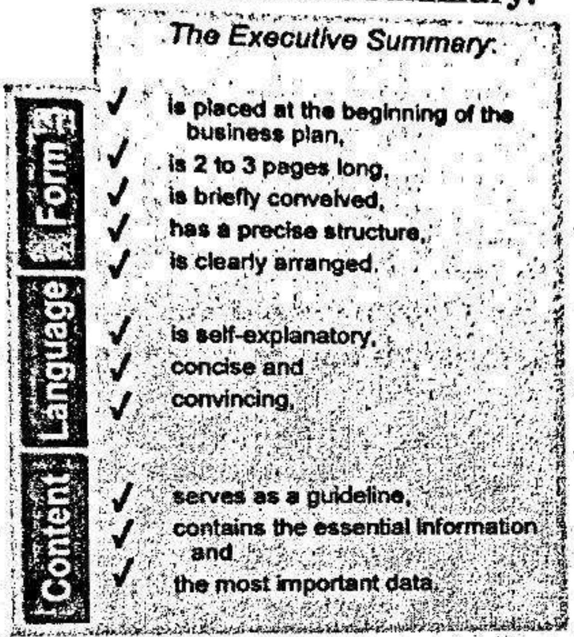
5. ***A short description of the products and services*** **:** An executive summary report describes products and services and thereby mentions the essential features, in particular the unique

selling propositions. It should explain production technology and product development.

6. ***Key financial data*** : An executive report should give an insight into relevant financial data, e.g. annual revenue, sales volumes and costs for a period of three to five years.

7. ***The description of your financial requirements*** : This demands an estimate of the required financial resources, an explanation of how to use these, and how and when will guarantee repayment to the investors.

8. **Key requirements of executive summary.**



II. MARKETING PLAN

Marketing is an essential component of a business. In fact, it is the heart of any business, serving the vital function of transforming production activities into financial performance, thus ensuring the survival of the business. Marketing is key regardless of the type of business.

A marketing plan is a set of orderly actions aimed at achieving specific objective(s) within a given timeframe.

A marketing plan may be defined as a strategic document outlining the actions/steps an entrepreneur propose to take to achieve organization's marketing objectives.

A marketing plan helps to clearly define the product and/or service an organization are offering, to identify organization's customers and competitors, to outline a strategy for attracting and retaining customers, and to anticipate changes in the marketplace.

Marketing plan describes the firm's market objective and marketing goals for the next years. Furthermore, it should determine the market share which the wish to achieve in the target market with the particular product portfolio, as well as the average market growth.

Advertising and marketing costs are based on Marketing plan. In addition when formulating marketing strategy, the entrepreneur should consider carefully which pricing method wish to embark on the customers.

From the individual market segments the entrepreneur derive segment specific strategies. There by e.g. industrial customers, commercial customers or end users are treated differently.

Importance of Marketing Plan

A marketing plan :

- Helps the entrepreneur to reach the target audience.
- Helps the entrepreneur to boost customer base.
- Increases organization's bottom line.
- Assists the organization in obtaining finances.
- Helps the organization to set clear, realistic, measurable objectives.
- Helps the organization to focus on total marketing efforts.

Factors to be considered while preparing Marketing Plan

The following factors are considered while preparing Marketing Plan :

(a) Advertising and marketing media

(b) Services and auxiliary services

(c) Competitive orientation

(d) Customer profitability

(e) Customer loyalty

(f) Acquisition of new customers.

Based on the marketing strategy the operative plans are derivate and provided with appropriate budgets. Thus the subject of the marketing plan is one of the most crucial management tools.

Steps in Marketing Plan

(1) ***Stating the marketing objectives*** : The marketing objectives may be formulated in so many variations. An organization would like to increase awareness of the product or service provide, increase sales and revenues by a certain percentage, and/or increase the number of customers who purchase the product or service. While framing marketing objectives the following things should be kept in mind.

(a) It should be realistic

(b) It should quantifiable and measurable

(c) It can be expressed in terms of sales value, sales units, market share, etc.

(2) ***Identification of demographic of the target market*** : The target market is a group of customers (people or firms) for whom the marketing effort is intended One way to determine customer

demographics (e.g., age, sex, profession, income level, education level, residency, individual or business, etc.) is to write a description of the organization's target audiences. Once the target market is fixed, focus on only those customers who are most likely to purchase the product or service.

(3) ***Identification of the competitor/ competition*** : There are several ways to go about identifying the competition. One way is to identify other farm businesses that are offering somewhat similar products or services to the customers the organization is targeting. Once the competitors identified, analyze two to four such businesses by answering the following questions. How are these businesses doing in terms of sales and demand for their product/service? What are the similarities and dissimilarities between your product/service and theirs? What are some of your competitors' strengths and weakness? Etc.

(4) ***Describing the products/services offering*** : A product may be a commodity or service, or both. A product should be identified from the customers' point of view rather than sellers' point of view. In other words, an organization produces what they can sell rather than sell what they can produce.

(5) ***Determining the distribution channel*** : When we talk about distribution, we are thinking about more than just the physical location of a business; place also includes how you plan to get the product/service into the hands of organization's customers (the place they need it). To do this, organization need to answer the following questions : How widely do organisations plan to geographically distribute product/service (e.g., locally, in-state, multi-state, nationally, internationally)? Are the organization going to be selling directly (direct marketing) to customers? Are the organization going to be selling indirectly (intermediary marketing) to packing houses or retailers?

(6) ***Choose your promotion strategy*** : Promotion refers to the entire set of activities that inform people about the product/service. Promotion induces customers to prefer organizations' product/service over those of competitors. Promotion is simply how the organization gets people to know about the product/service that the organization provide. It deals with how and what organization want to communicate to customers/buyers. Several tools can be used, including mass media (radio, television, internet, newspapers, magazines, etc.), direct mail, personal contacts, trade associations, and social media (Facebook, Twitter). The organization should also identify the amount of resources (human and capital) need for promotions.

(7) ***Develop a pricing strategy*** : There are several pricing strategies such as cost-oriented pricing, flexible pricing, and relative pricing. Cost-oriented pricing strategy involves setting the price at a certain percentage level, say 20%, above the production cost. Flexible

pricing strategy is where you vary the price depending on the buyer or time (e.g., time of year). Relative pricing strategy is simply using the prevailing market price to set own price whether it is above, below, or at the same price. While fixing the pricing strategies the following facts should be kept in mind. What are the pricing strategies used by your competitors? What is your cost of production? All the above questions should be properly addressed while framing pricing strategy.

Key strategies involved in Marketing Plan (How projections in marketing plan is made?)

A marketing plan involves preparation of many strategies. These strategies help in preparing projections in the coming period. Mainly the following strategies are formulated while preparing marketing plan.

(1) ***Marketing Activity Plan*** : It involves key activities which are involved in finding future sales. Usually a marketing activity plan involves projections for the next three to four years. In this activity plan, projections for each product and the key responsible persons for achieving the projected sales are made. This plan also includes various forms sales that the organization intends to made. A typical format of a multi product company is shown below.

Activities	***Date***		***Responsible Person***	***Remarks***
	From	***To***		
Direct sale of Product 1				
E-mail sale of Product 1				
Telephone sale of Product 1				
Event sale of product 1				
Total sale of Product 1				xxxxxx
Direct sale of Product 2				
E-mail sale of Product 2				
Telephone sale of Product 2				
Event sale of product 2				
Total sale of Product 2				xxxx
Total anticipated sale of the organization				xxxxx

(2) ***Market Growth Strategy*** : In order to be able to estimate the future business, it is necessary to investigate the growth of market. Growth plan should quantify and estimate both revenue and sales volume for the next 3-5 years. For estimating market growth the activities of the competitor and relative market share (RMS) is to be estimated In terms of a quotient of the market shares, the relative market share indicates the gap between the organization and the main competitor on the market.

$$\text{RMS} = \frac{\text{Own market share}}{\text{Market share of the main competitor}}$$

Market Growth Plan

Market share of the main competitor %	75	50	30	25	20	15	10
Own market share %	25	25	25	25	25	25	25
Relative market share %	0,33	0,50	0,80	1,00	1,25	1,66	2,50

(3) ***Pricing Strategy*** : A key to the success of the business is the appropriate pricing policy. If your prices are too high, the organization will not be able to attract customers and expect orders within the competitive environment. If the prices are too low, the organization will risk steering the company into the loss area. A fair price is fixed on the basis of the objectives of the organization.

The following methods are used for fixing the price of product :

(A) Cost plus pricing

(B) Variable cost pricing

(C) Full cost pricing

(D) Going rate pricing

(E) Penetration pricing

(F) Skimming pricing.

After fixing a fair price, the organization will set a market plan on the basis price fixed. This market plan is prepared on the basis of the previous year(s) and current year. It shows sales in quantity and in value terms on the basis of price fixed.

SALES VALUE/QUANTITY PROJECTION ON THE BASIS OF PRICE FIXED

Description	*LY*	*CY*	*PY*		
			Year 1	*Year 2*	*Year 3*
Product 1					
Market share (%)					
Market volume (₹)					
Percentage of sale					
Sales Volume (quantity)					
Revenue (₹)					
Product 2					
Market share (%)					
Market volume (₹)					
Percentage of sale					
Sales Volume (quantity)					
Revenue (₹)					
Total Revenue (₹)					

LY–Last Year CY–Current Year PY–Projected Years

(4) ***Advertising and sales promotion strategy*** : The significance and the kind of advertising and sales promotion vary strongly among markets. It has to be carried out a planning of advertising for consumer goods, that are bought regularly (*e.g.* foods and toiletries), for over-the-counter-drugs and for durable consumer goods.

The/This plan has to include the main advertising message and budget, the selection of advertising media (television, journals, daily papers and so forth) as well as possible cooperation with advertising, sales promotion and public relation agencies. The selection and suitability of advertising media are mainly determined by the advertising goals as well as by geographical, quantitative and qualitative access to the target customers (generations, income levels, residence etc.).

Sales promotion in the field of consumer business should be planned extremely carefully, in order to ensure their acceptance with the retailers, as well as their sales potential and success.

SALES NET REVENUE PROJECTION BY CONSIDERING MARKETING AND ADVERTISEMENT COST

Description	*LY*	*CY*	*PY*		
			Year 1	*Year 2*	*Year 3*
Product 1					
Gross Revenue (₹)					
Advertisement cost (₹)					
Marketing Cost (₹)					
Net Revenue (₹)					
Product 2					
Gross Revenue (₹)					
Advertisement cost (₹)					
Marketing Cost (₹)					
Net Revenue (₹)					
Total Net Revenue (₹)					

LY–Last Year CY–Current Year PY–Projected Years

III. FINANCIAL PLAN

Finance is one of the most important parts within the business plan. Financial management, as is carried out in a business plan, is essential for every company. Financial Management is concerned with quantum and amount of fiancé required for running and operating a business unit.

The type of finances which have to be prepared for the business plan depends to a large extent on the development stage of the company, as well as, the goals the organization want to achieve with the business plan. The longer a company has existed, the greater the expectations in this area are. If a company wishes to attain goals, the type and amount of the financing should be carefully selected.

The basic financial data in a business plan report can be classified into three categories :

(a) Revenue,

(b) Investments and

(c) Costs.

The revenue is the evaluated amount of the products and services that sell by the organization. This data is taken from the sales and marketing plan.

The investments represent the capital required for production. This can include property, buildings, machinery as well as financial investments like shares etc.

(d) **The costs** include all the remaining expenses which are necessary to keep the company running : salaries, wages, office supplies, information processing, telecommunication, etc.

From the information so collected, the organization prepares the following financial forecasts :

The balance sheet sums up the financial activities of the business on a particular date usually at the end of financial year and provides the investors with an insight into overall financial position. While the assets show the application of funds (the assets you have utilized for your company), the liability shows the source of funds (equity and external funds).

The income statement (sometimes referred to as the profit and loss statement, the P&L) presents the results of the business activities. The sales revenues of the products and services and all the related costs over the business year are reflected in this income statement.

The cash flow statement is especially important to the investors. It gives an idea about the company's self financing potential, i.e. which means the company has at its disposal to pay dividends, taxes, loans and interest.

Projected balance Sheet

A balance sheet shows the position of assets and liabilities on a particular date. Projected balance sheet of an enterprise is prepared to show different assets, liabilities and capital over a period of time. In projected balance sheet estimated liabilities and assets are made. This estimation is made on the basis of past figures. Thus in a projected balance sheet previous few years assets and liabilities and estimated figures of assets and liabilities are shown. This data is very useful to the investors as it provides vital financial information of the company in the previous years as well as in the future period. They can take whether to grand loans or not and how much fiancé is required, whether their advances are secured.

As projected balance sheet provides vital information to the investors, most of the investors seek it before taking any financial decisions. A projected balance sheet provides not only the present credit worthiness if the business but also the future.

PROJECTED BALANCE SHEET

Assets	*Previous Years*			*Projected Years*		
	Year 1	*Year 2*	*Year 3*	*Year 1*	*Year 2*	*Year 3*
A Long-term Assets						
I. Intangible assets and prepayments						
II. Fixed assets						
III. Financial assets						
B Current Assets						
I. Inventory						
II. Receivables						
III. Cash						
Total Assets						
Liabilities	*Previous Years*			*Projected Years*		
	Year 1	*Year 2*	*Year 1*	*Year 2*	*Year 2*	*Year 3*
A Equity						
I. Share capital						
II. Retained earnings						
III. Current profit or loss						
B Provisions						
C Liabilities						
I. Liabilities to banks (loans payable)						
II. Accounts payable						
III. Other liabilities						
Total Liabilities and Equity						

Uses of projected balance sheet

(A) It is used to compute short term financial position of the business. Short term financial position is computed by comparing working capital during the period. The excess of current assets over current liabilities will give the figures of working capital increase in working capital will show improvement in the financial position of the business.

(B) Through projected financial position long term financial position can be computed by analyzing the changes in fixed assets, long-term liabilities and capital. An increase in fixed assets should be compared to the increase in long term loans and capital. If the increase in fixed assets is more than the increase in long term liabilities, then part of fixed assets is financed through working capital. On other hand, if the increase in long term securities is more than the increase in fixed assets, then fixed assets have not only been financed from long term source but also a part of working capital has also been financed from long term sources.

(C) Projected balance sheet is also used to compare the profitability of the organization. The study of increase or decrease in retained earnings, various reserves and surpluses enable the investor to analyze the profitability of the organization.

Projected income statement

The income statement gives the results of operation of a business. It shows the net profit or net loss on account of business operation. Projected income statement gives an idea of progress of a business over a period of time.

The projected income statement or profit and loss account depicts anticipated sales and expected expenses for some future years. This estimation is made on the basis of some past years data. It depicted sales, cost of sales operating expenses, non operating expenses and net revenue from operation for the last few years and for the estimated years.

Objectives of preparing projected income statement :

- To analyze and evaluate the operating result of a business.
- To indicate the trend and direction of incomes and expenditures in terms of absolute money values and percentages.
- To enhance the usefulness of an income statement.
- To help the management in planning and forecasting the profits.

Projected income statement

			Previous Years			*Estimated*		
			Year 1	*Year 2*	*Year 3*	*Year 1*	*Year 2*	*Year 3*
	1.	**Sales**						
+/-	2.	Change in inventory						
+	3.	Other miscellaneous income						
	4.	**Total income**						
–	5.	Material costs						
–	6.	Personnel costs						
–	7.	Depreciation						
–	8.	Other operating expenses						

=		**Operating income (EBIT)**						
+	9.	Interest and similar income						
–	10.	Interest and similar expenses						
=		**Net financial income or expense**						
=	11.	**Income before taxes**						
–	12.	Income taxes						
–	13.	Other taxes						
=	14.	**Net income / loss for the year**						
-	15.	Increase of retained earnings						
	16.	**Net profit / loss**						

Uses projected income statements

(a) The increase or decrease in sales should be compared with the increase or decrease in cost of goods sold. An increase in sales will not always mean an increase in profit. The profitability will improve if increase in sales is more than the increase in cost of goods sold.

(b) Projected income statement helps to analyze the operating profit. A decrease in operating profit may be due to an increase in operating expenses. The investor should analyze the reasons for changing operating profits.

(c) Projected income statement also helps to analyze about the overall profitability of the organization.

Projected cash flow

Cash plays a very important role in the economic life of business. A firm needs cash to make payment to suppliers, to incur day to day expenses, and to pay salaries, wages, interest and dividend etc.

The cash flow statement shows the financial strength. This statement gives information as to what extent the company has generated liquid assets. In cash flows, business activities are classified into three :

(a) Cash flows from operating activities

(b) Cash flows from investing activities

(c) Cash flows from financing activities.

Operating activities are principal revenue producing activities of the enterprise. It shows whether the enterprise has generated sufficient cash flows to maintain the operating capability of the enterprise to pay dividend, repay loans, and to make investment without recourse to external finance.

Investment activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents. The separate disclosure of cash flows arising from investment activities is important because the cash flows present the extent to which expenditures have been made for resources intended generate future income and cash flows.

Financing activities are activities that results in changes in the size and composition of the owners' capital and borrowings of the enterprise.

Uses of projected cash flow statements

1. Since a cash flow statement is based on the cash basis of accounting, it is very useful in the evaluation of cash position of a firm. The information on cash flows is useful in analyzing sources of generating and deploying cash and cash equivalents during the reporting period.

2. A projected cash flow statement can be prepared in order to know the future cash position of a concern so as to enable a firm to plan and coordinate its financial operations properly. By preparing this statement, a firm, can come to know as to how much cash will be generated into the firm and how much cash will be needed to make various famous payments and hence the firm can well plan to arrange for the future requirements of cash.

3. A comparison of the historical and projected cash flow statements can be made so as to find the variations and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective action.

4. Cash flow statement helps in planning the repayment of loans, replacement of fixed assets and other similar long term planning of cash. It is also significant for capital budgeting decisions.

5. Cash flow statement provides information of all activities classified under operating invest in and financing activities, The funds statement even when prepared on cash basis, didn't disclose cash flows from such activities separately, Thus, cash flow statement is more useful than the funds statement.

PROJECTED CASH FLOWS

		Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*
	Net income from the Income Statement					
+/-	Depreciation					
+/-	Changes in provisions					
+/-	Changes in other non cash items					
	Cash flow from operating activates before working capital changes					
-/+	Changes in inventory					
-/+	Changes in receivables and other assets					
+/-	Changes in liabilities					
	Cash flows from operating activates					
-	Purchase of assets					
+	Proceeds from the disposal of assets					
	Cash flows from investing activities					