

Helpsheet

Business Plan Guidance

Published jointly by CCAB-I and
the Irish Banking Federation



**The Consultative Committee
of Accountancy Bodies-Ireland**

Chartered Accountants Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Institute of Certified Public Accountants in Ireland



**IRISH
BANKING
FEDERATION**

*This helpsheet has been prepared by the Consultative Committee of Accountancy Bodies - Ireland (CCAB-I) and the Irish Banking Federation. It is designed to facilitate the use of a common approach, framework and language in the preparation of business plans and raising of bank finance. **This helpsheet cannot be regarded as a comprehensive guide to the preparation of a business plan or the raising of bank finance in all cases or in specific circumstances.** No responsibility for loss occasioned to any person acting, or refraining from action, as a result of the material in this publication can be accepted by CCAB-I or the Irish Banking Federation.*

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How to use this helpsheet

This guidance is designed primarily to be used by accountants and bank lenders, and as such it assumes a familiarity with finance and business on the part of the user. It has been produced as support to accountants who advise promoters of small and medium sized enterprises in the preparation of business plans forming part of applications for the loans typically needed by these entities. It is also intended to assist lenders who assess business plans.

A wealth of guidance has already been published elsewhere on the preparation of business plans. A key feature of this helpsheet is that it has been drafted by the main accountancy bodies and lending banks, and as such, facilitates the use of a common approach, framework and language. The discipline of preparing a structured business plan will also assist business owners and promoters in developing clear business strategies.

The headings below can be used as the headings for the business plan. The guidance below will help you with the content for the plan. Every business plan is unique. The circumstances of each business are different and the information that is crucial to the making of a loan will vary accordingly. Clearly, complex businesses with multiple products and outlets seeking new sources of finance will require more detailed plans than less complex businesses in situations where the borrower is well known to the lender. For shorter business plans, the guidance in sections such as the product, customers and marketing should be considered to be a list of matters that could be included, not a list of mandatory inclusions. Judgement should be applied and the experience of a CCAB-I member accountant will be helpful in making this assessment.

We have presented the guidance in the form of core and optional sections. The core sections are set out in bold type. It is expected that the core sections will be completed in all cases and a plan consisting of these sections alone may be sufficient where the business is non-complex and the lender already has knowledge of the business and promoter.

Where the business is in a start-up phase, or where the lender has no previous knowledge of the promoters, or in the case of a more complex business, more information will be needed and the optional sections should be completed as necessary. The accountant should use his or her judgement to guide the promoters regarding the inclusion of optional sections and the extent of detail needed in these.

In all cases, the promoters should complete a separate application for credit to the bank in a form specified by the individual bank. For general guidance on completion of such application forms, please see the Standard Small Business Credit Application Guidance published by the Irish Banking Federation, and available on its website <http://bit.ly/IBFSMEapplication>. In some cases, for example where existing financial arrangements are being renewed, no separate business plan may be necessary and the application form alone may be sufficient.

This helpsheet has been drafted to reflect the needs of businesses seeking finance to commence or expand operations. It may also be used as a basis of a request for refinancing for a company in financial difficulties, though in these cases, changes may need to be made to some of the headings and content.

The preparation of the business plan is the primary responsibility of the promoter. The accountant should obtain an appropriate engagement letter that sets out the extent of the involvement of the accountant in advising on the plan. It should be made clear in an engagement letter that no audit of the business plan or information therein has been carried out and that the accountant does not express an opinion thereon. Projections and growth plans should be realistic, avoiding, for example, overly optimistic sales projections or project start dates. The role of the accountant should be to bring expertise, experience and objectivity to bear, considering and, if necessary, challenging the assumptions, estimates and projections made by the business owner or promoter. Suggested steps for reviewing forecasted or projected financial information are set out in Appendix 2. Further guidance on agreed-upon-procedures engagements is available from accountants' professional bodies.

Headings of Business Plan

The headings may be added to or varied from the agreed format where required.

1. Executive summary
2. Name of business and contact details
3. Business owners and/or directors
4. The business
5. Products, services, customers and marketing
6. Staff details - optional
7. Legal status
8. Names of advisers
9. Suppliers - optional
10. Business assets - optional
11. Business risks and response to risks
12. The project - optional
13. Request for finance
14. Financial Information

These headings should be used as the skeleton for the business plan.

Guidance

Core: Items in this typeface should be presented in all business plans.

Optional: Items in this typeface should be presented where it is expected that this information will be needed by a lender. See explanation above.

1. Executive Summary

Introduce the business and its financial needs. Provide a brief summary of the business, the proposed project, current financing arrangements and the financial requirement. Highlight those key aspects that will be of interest to a lender. Points should be supported by more detailed information below.

2. Name of Business and Contact Details

Give sufficient information to identify the business and the person a lender should contact with queries or feedback.

3. Business Owners and/or Directors

Provide sufficient detail to identify the key parties.

Optional: For new businesses, or businesses not known to the lender: Detail the owners' and/or directors' relevant qualifications, experience and their particular skills, so that a lender or other reader will appreciate their strengths and track record in running a business, especially in the specific sector.

Optional: For new businesses, lenders may be interested in whether a promoter can demonstrate that they have knowledge and experience of the industry, the production, sales and distribution processes, and have established contacts with key suppliers and possible future staff.

4. The Business

Brief description of the business

Optional: History of the business (not necessary where the business is well known to the lender). This should be a brief description of the key milestones reached by the business. Concentrate on information that a lender will need, such as the reaching of sales targets or launching of key products.

Optional: Goals and overall strategy of business (not necessary where the business is well known to the lender). What are the promoters' expectations for the business? What do they want to achieve? Identify long and short term goals. Goals should have clear timeframes indicated.

5. Products, services, customers and marketing

Describe the key products or services. What are their unique selling points? Explain why a customer will buy these products or services instead of those of competitors. Concentrate on the benefits of products to potential or actual customers.

Optional: Describe each product's long-term life cycle and where it currently fits in this cycle. If the business includes a manufacturing process or a complex distribution system, then it will be necessary to describe these processes in reasonable detail. A geographical split of sales is important if products are exported.

Describe the business's customers.

Optional: Who is the typical customer? Name the main customers or potential customers, if this is possible. What is the proportion of sales to each customer?

Optional: Detail terms of contracts with key customers or licences, where appropriate.

Marketing plan. Lenders will be interested in how the potential of a business will be translated into actual sales. For shorter business plans, a brief description of the marketing plan is sufficient.

Optional: For new businesses, valuable information would be the reaction of early adopting customers to new products and services, if this is available.

Optional: Elements of a marketing plan:

- *Size of the potential market and its stage (introduction, growth, maturity, saturation)*
- *Market research carried out. Provide references to sources of information.*
- *Interest expressed by potential customers in this business idea and sales expected. Written endorsements may be useful.*
- *Interest expressed by potential customers in prototypes for new products. As with the previous point, written endorsements may be useful.*
- *Pricing strategy (comparison with competitors, including credit/payments terms offered)*
- *Channels of promotion (such as advertising, networking, internet, social media, PR or direct selling) and why these are expected to be effective*
- *Distribution. Practical issues and solutions for delivering products to customers should be explained*
- *After-sales service – complaints and returns handling*
- *Marketing spend*
- *Stage of roll-out of the marketing plan.*

6. Staff Details - Optional

The strength and experience of the team is crucial to the success of a business. The following information may be provided to give context to what is often the largest expense of a business.

Optional: Set out employee numbers by broad function (eg manufacturing sales, service, administration and by status (permanent/contract and full-time/part-time). This information is important where the business is in start-up phase or is undergoing a major expansion.

Optional: Provide the names of key personnel, their roles in the business, experience, background and qualifications. Consider the key functions in the business such as sales, production, HR and accounting.

Optional: For a start-up or growing business, provide a staffing plan, showing what roles will be filled and when, as the company expands and the cost of filling those roles. How will the business attract and recruit suitable staff? What grant aid is available to fund additional roles?

7. Legal status

Legal structure of business: e.g. limited company. The most common legal structures for operating a business in Ireland are as sole trader, partnership or limited company. Broadly speaking, it is simpler to run a business as a sole trader or partnership, whereas a company will give more legal protection to the business owners and directors. Where appropriate, provide an explanation for the selection of the legal format. For a limited company, give the names and holdings of the shareholders as well as directors.

Optional: Describe the legislative environment in which the business operates including main legislation and regulation, regulator, requirement for licence, proposed/expected changes and requirement for planning. Compliance with tax legislation.

8. Names of advisers

Name of accountant

Optional: List of other professionals advising the company including solicitors, architects, consulting engineers etc. Give details of government/local support agencies.

Optional: List strategic partners, and their roles, if these are a key feature of the business.

9. Suppliers - optional

Optional: Names of principal suppliers and what products and services are sourced from them. Details of terms of trade (payment terms, delivery times), alternative suppliers, terms of key contracts. Where relevant, list the advantages of current/proposed suppliers over alternative suppliers.

10. Business Assets - optional

Optional: Premises – What is the location of the business including outlets and branches? Describe properties and title to properties. Provide carrying value of properties. If premises are rented: detail the terms, amount, payment frequency of rent, leased term, years remaining, rent review periods. This section is particularly important where the business is seeking asset-backed finance.

Optional: Equipment (including vehicles, furniture and fittings) used for the business currently and proposed equipment needs. Detailed information on the item, its cost, how it will be funded, when it will be owned/fully paid-off and its current value.

11. Business risks and response to risks

The business should list the key risks affecting the business and how it responds to these.

Optional: List the key competitors, with an assessment of their strengths and weaknesses. Describe the business's response to competitor pressure. Consider the risks faced by a new business in an industry which has low barriers to entry, where competitors may quickly eat into its profitability. Consider how the business will move to consolidate its market, retain loyalty of a customer base, or continuously innovate to stay ahead of competitors.

Optional: Consider using SWOT analysis to highlight the competitive advantage of the business and its response to threats. Consider using Key Performance Indicators and the track record of the business and its competitors in relation to these.

Optional: Consider how the business will respond to possible improving or worsening economic conditions.

Optional: What other risks does the business face? For example, is the business exposed to foreign exchange or interest rate fluctuations? How does the business minimise the impact of these risks. Give details of insurance cover where this addresses key risks.

12. The Project - optional

Optional: A description of the project for which finance is required. Description, timing and key milestones of project. What is the break-even point for sales generated from the project? (For a start-up business, much of this information may already be given in the description of the business above.) Tax planning opportunities arising from the project, where appropriate. For a new project within an existing business, the headings at 5 to 11 should be considered in the context of the project.

Optional: For a business recovery plan, the business may need to cut costs and curtail operations. A detailed description of how and when this will be achieved should be set out.

13. Request for Finance

Financial requirement:

- **Quantum and timing of finance requested**
- **Proposed repayment schedule**

Uses of finance. Detailed description of how funds will be spent and, in the case of loans and other credit, how and when repayment will be funded.

Outline any other sources of finance being requested or approved such as investment by the promoter, grant aid, etc. that will supplement the credit finance being sought.

14. Financial Information

Current financing arrangements:

- **Names of current lenders**
- **Amounts and terms of loans**
- **Maturity of loans**
- **Covenants**
- **Security and guarantees**
- **Internally generated capital including directors' loans, and terms attaching to these, shareholdings and reserves**
- **Other sources of finance such as grant aid.**

As explained in the introduction to this guidance, projections and growth plans should be realistic, avoiding, for example, overly optimistic sales projections or project start dates. They should be closely tied to the marketing and operational plans above. The accountant should bring expertise, experience and objectivity to bear, considering and, if necessary, challenging the assumptions, estimates and forecasts made by the business owner or promoter.

The complexity of the business, the lender's prior knowledge of the business, and the required term of finance will influence the amount of historic and projected financial information to be provided. Three years' historic (where available) and one year's forecasted information may be sufficient for most plans. Projects with payback over a number of years will require information over equivalent time periods.

Historic financial statements or summaries of these for an appropriate number of years, including management accounts for the current period, if available.

- Profit and loss accounts
- Balance sheets
- Cash flow statements

Projected Financial Statements for an appropriate number of years

- Profit and loss accounts
- Balance sheets
- Cash flow statements, indicating peak borrowing requirements

Key assumptions made by the promoter underlying financial information

Optional:

- *Gross profit margins: overall and for key products. Break-even points for new products.*
- *Credit policy in relation to Debtors and Creditors, and history*
- *Major expenses such as payroll, rent, raw materials etc. Opportunities for cost savings.*
- *Scenario analysis. Projected financial statements flexed for key variations of assumptions, such as variations of sales figures by factors such as 10% or 20%, or variations caused by risk factors identified above.*
- *Financial headroom based on requested finance and scenario analysis.*

Appendix 1

Suggested format for Cash Flow Forecast

	Total	Month 1	Month 2...	...Month 12
	€/£	€/£	€/£	€/£
Cash inflows				
Receipts from sales (including VAT)				
Financing inflows including Loans received				
VAT refunds				
Other cash received				
Total inflow (A)	-	-	-	-
Cash outflows				
Payments to Suppliers (including VAT)				
Wages and Salaries – net				
PAYE and PRSI/NI payments				
Expenses and utilities – cash payments				
Rent, Rates etc.				
VAT payments				
Capital expenditure				
Financing outflows: capital repayments and interest payments				
Corporation tax				
Other cash payments				
Total outflow (B)	-	-	-	-
Net inflow(outflow) (A-B)	-	-	-	-
Opening monthly cash balance (C)	-	-	-	-
Closing monthly cash balance (A- B + C)	-	-	-	-

Appendix 2

Suggested Work Programme for Review of Forecasted or Projected Financial Information

Purpose of a Cash Flow Forecast

The inclusion of a cash flow forecast in a business plan indicates that management has considered whether the business will have sufficient cash over the term of the requested finance to meet repayments and interest costs without placing the business under excessive stress. The business should review each of its income sources and outgoings, including regular expenses or payments and once-off items such as tax payments or investments. The forecast includes all cash flows of the business including capital and current items, which are usually presented gross of VAT with VAT payments and refunds shown separately. If a business buys or sells on credit, then there will be timing differences between the transaction and the cash payment or receipt.

The information is usually presented on a monthly basis, but this can be varied depending on the circumstances of the business and its financial needs. In forecasting, the business seeks the answers to the following questions in respect of each period:

1. What is the current or opening cash balance of the business?
2. How much cash will come into the business and when will the business receive it?
3. How much cash will the business pay out and when will payments be made?
4. What is the closing cash balance at the end of the forecast period?
5. Can the business manage its cash so that any negative cash balances arising do not exceed agreed overdraft limits?

The limitations of a cash flow are the same as any statement of future financial information and reflect a high degree of subjectivity and uncertainty. However, the process will benefit from a structured logical approach. Given the level of uncertainty, a margin of error known as headroom is usually included, so that the requested finance is greater than the maximum required finance indicated by the forecast. Where forecasted profit and loss accounts and balance sheets are presented, the cash flow forecast should be reconcilable to these. A distinction is drawn between forecasted information, which represents the management's best estimate of future events based on its intended actions, and projected information which can represent a range of outcomes based on hypothetical future scenarios.

The accountant should consider the following steps when reviewing the forecast:

- Discuss and explain your work programme with management. Explain the inherent limitation of any review of future events and conditions. Clarify that the forecast, projections, assumptions and estimates are primarily the responsibility of management. Ensure that the engagement letter adequately reflects the responsibilities of both parties. Discuss and consider management's previous experience of preparing projected financial information.
- Discuss assumptions. Consider whether management has made reasonable assumptions regarding future economic conditions, labour costs, utility costs, fuel costs, etc. Review assumptions regarding future actions and policies of the business such as credit policy and credit control.
- Review future sales. Consider assumptions behind projected sales. Consider whether management has applied a logical structured approach to predicting future sales. Consider the outcome of any previous projections made by management. Consider and discuss whether forecasted sales levels are possible in terms of the capacity of the business.
- Consider the link between marketing effort and future sales. Have reasonable levels of growth and seasonality been assumed?
- Discuss estimates.
- Review expense levels. Consider variances between current and future expenses. Consider whether expected expenses or expense categories are missing from the projections. Has seasonality of expenses been assumed to reflect activity levels?
- Review costs of once-off and capital projects. Review and discuss management's workings and consider whether management has researched costings and obtained quotes.
- Review the opening position. Consider whether the latest available receivables

and payables have been used. Consider whether current cash holdings have been used as the opening cash position in the projected financial statements. Where an elapsed portion of the current period is included, the accountant should consider carrying out an appropriate review of actual financial results forming part of the projections.

- Where the forecast is prepared using a spreadsheet, review the integrity of the spreadsheet, including formulae and cross checks.
- Consider whether the requested finance in the business plan is reasonable based on the projected cash needs indicated by the cash flow forecast, and whether the cash flow makes adequate provision for the repayment of capital and interest. Consider whether there is adequate headroom to take account of contingencies.
- Where forecasted profit and loss accounts and balance sheets are presented, consider whether these are prepared in accordance with UK and Irish GAAP or another appropriate framework, consistent with the historic information presented, and reconcilable to the cash flow forecast.
- Where different projected scenarios are presented, consider whether the scenarios adequately represent a range of likely outcomes.



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