

Account Itemizations - Financial Plan

The purpose of this section is to work out the details of how you will categorize and itemize your financial expenses, and to get you to begin the process of obtaining quotes/bids. These exercises are meant to stimulate thought regarding the extent that expense itemizations exist for your business opportunity.

At this point in time we are not attaching dollar amounts to each of the itemizations - we are instead looking for the full range of expense itemizations. This will give us a strong feeling regarding the potential cost structure of our business opportunity. Please bear in mind that marketing expenses are not included in this section.

1) **Business Insurance**

There are many types of insurance coverage available to assist your business to mitigate risks. Insurance needs will vary with the types of business you are in because different types of businesses have different types of risks associated with them. The following are the most common types of insurance.

- a) **Auto** - Vehicle types usually include automobiles, trucks, or trailers
- b) **Crime** – This covers loss due to burglary, theft, computer theft, fraud, or other crimes.
- c) **General Liability** - You really must have this type of coverage if you are in business because it covers your customers for potential injury in case of accident. The most common type of coverage includes protection for: customer bodily injury or property damage, claims from use of premises, medical payments, off-premises liability, and contractual liabilities.
- d) **Inland Marine** – This covers the movement of goods from one location to another.
- e) **Machinery** – Protects with expenses associated with direct damage caused by sudden or accidental breakdown of a wide variety of electrical or mechanical equipment.
- f) **Medical Malpractice** – This covers medical and dental professionals of all kinds.
- g) **Professional Liability** – This covers professionals such as accountants, insurance adjusters and appraisers, architects and engineers, insurance agents, lawyers, real estate agents and non-profit associations.
- h) **Product Liability** – This is a specialized type of coverage which most of the time must be purchased separately, and covers against claims arising from the use of a product.
- i) **Property** - This type usually includes coverage for signage, newly-acquired buildings, outdoor property, and off-premises property. Additional coverage for spoilage or sewer backup will allow you to protect against industry-specific risks.
- j) **Umbrella Policy** - These types of coverage usually provides for protection for unusual risks, catastrophes, and additional coverage above and beyond underlying insurance coverage.

2) **Contracted Services**

What types of independent contractors might you need to utilize? Independent contractors are not employees - typically they are companies that we use to conduct specialized services.

- a) **Accounting** - What types of accounting services might you need to use? The most common types are bookkeeping services, CPA services, payroll services, or tax services.
- b) **Consulting** - The most commonly used type of consulting services include management consulting and organizational consulting services.
- c) **Legal** - Will you need to contract with attorneys? For what purpose? Legal firms can be retained for a set annual fee - allowing up to a certain number of hours service, with a set hourly rate for each additional hour. This may allow your firm to tap into various legal experts depending upon which need arises.
- d) **Maintenance** - These types of contracts will vary depending upon the types of industrial machinery, office equipment or facilities. These might include anticipated repair services, copier maintenance, machinery maintenance, vehicle maintenance, security system engineering, or janitorial services. Trash or garbage services are not to be included here, as they are considered to be an occupancy expense.
- e) **Marketing** - Various types of marketing services maybe contracted. These might include graphic art, advertising agencies, marketing research services, or data analysis services.
- f) **Personnel** - Companies may contract for personnel services. One popular option is to lease back your "own" employees from an employee leasing firm. This process might allow the firm to drastically lower its burdened employee cost rate - workers compensation and other mandatory and optional benefits may be purchased at a volume discount through the leasing firm. Other types of personnel services might include temporary agencies, secretarial services, or rent-an-executive programs.

3) **Debt**

What type of debt do you anticipate obtaining? Please remember that debt, by definition, requires that there be a principle amount, an interest rate, and a payback period. If you get a "loan" from mom or dad to "pay back when you can" – that is not a loan (it's a form of venture capital).

Most common sources are:

1. Bank loans - home equity
2. Bank loans - secured
3. Credit union loan
4. Family loan

4) **Employees**

- a) **Job or Occupational Title** - For the purposes of this plan, let us project out for the first year only. For each type of employee, what is the job or occupational title? Job or occupational titles can directly relate to the ego of the employee and

the image that the job projects. As an example, is the person a "janitor" or a "maintenance engineer"?

- b) **Number of Full-time or Part-time Help Required** - You will need to specify how many employees will be needed in the first year, and if they will be full-time (F/T) or part-time (P/T) employees.
- c) **Brief Description** - Specify briefly (one or two sentences) what this person will do. At this point you do not need to draft out clearly defined job duties, or the skills required for the job - that will come later when you complete your Personnel Plan. Right now, you want to get an understanding of how many employees you will need to hire, and what type of personnel your business will need during the first year.

Title:	How Many F/T?	How Many P/T?
Brief description:		
Title:	How Many F/T?	How Many P/T?
Brief description:		
Title:	How Many F/T?	How Many P/T?
Brief description:		
Title:	How Many F/T?	How Many P/T?
Brief description:		
Title:	How Many F/T?	How Many P/T?
Brief description:		

Types of Employees Required - Examples - To assist you, in thinking about the types of employees your business may require, a list of examples is included for your review:

Accountant	Manager
Bartender	Mechanic
Calligrapher	Outside sales agent/ sales representatives
Cashier	Owner/manager/operator
Cell boy	Paralegal
Clerk - Inventory	Pathologist
Clerk - Office	Phlebotomist
Clerk - Shipping	Pool cleaner
Cook	Purchasing
Cutter	Receptionist
Delivery drivers	Salespeople
Designer	Screen printer
Dispatcher	Secretary
Electronic technician/ engineer	Security guard
Engineer	Sign painter
Florist designer	Swimming instructor
Gardener	Teachers
Graphic artist	Tinter
Housekeeper	Travel agent
Janitor	Waiter

5) Employer Paid Employee Benefits (Burdened Costs)

- a) **Mandatory Employee Benefits** - What are the mandatory types of benefits you will be required to provide for all employees? These include: social security tax, Federal tax, State tax, and Worker's Compensation insurance. You will need to determine what the "burdened" costs are for each employee in your organization - more on that later, when we will provide specific instructions. Part-time employees do require mandatory benefits. These "burdened costs" may conservatively be estimated as 11.5 % of employee salaries.
- b) **Optional Employee Benefits** - What are the optional types of benefits that you might want to provide to the different types of employees you will have, including yourself? The type of benefits provided may depend upon full-time or part-time employee status, and the philosophy of the owner. The most common types of optional benefits are listed below:

Types of Optional Benefits
A. Medical insurance
B. Dental insurance
C. Vision insurance
D. Life insurance

E. Pension plan/ Retirement plan
F. Profit-sharing plan
G. Employee Stock Option Program

Full-time employees (other than owners) typically varied in the types of benefits they received from A to A, B, C, D and G. Results were almost unanimous that owners wished to receive A through G (all benefits). You will need to begin to get quotations for the types of benefits you want to provide.

6) Types of Fixed Assets

Fixed assets usually refer to long-term assets, or property that will have a useful life of over one year, or have a value of over \$5,000. If you plan to expense an item under Section 179 of the Internal Revenue Service Code, you should first check with your accountant to determine how your assets should be classified. These expenses include common leasehold improvements, which are the expenses related to the construction of new counters, carpeting, tile work, and other improvements of the “bare walls” at your business location. Fixed assets may include items such as the following:

Booths	Display cases	Ovens
Capital equipment	Equipment	Plant
Cash register	Fax machine	Printer
Clothes racks	Fixtures	Real estate property
Computers	Furniture	Sanders
Copy machines	Industrial tools	Tables
Cutting machine	Kitchen equipment	Telephone system
D.J Equipment	Lighting	Video machines
Delivery van/ vehicles	Machinery	Washers/ dryers

7) Supplies and Miscellaneous Expense Items

Your business will require many small items, or items that will need to be expensed. Often times we don't realize how much we will really need to start the business, nor how often we will need to replenish our supplies. A starter list has been created for you to begin to itemize what some of your miscellaneous supplies may be:

1. Answering machine	31. Glue	61. Rags
2. Appointment books	32. Hangers	62. Razor blades
3. Batteries	33. Hanging file folders	63. Receipt book
4. Blow dryers	34. Highlighters	64. Register tape
5. Books	35. Hole puncher	65. Ruler
6. Briefcase	36. Ink cartridges	66. Scissors
7. Brochures	37. Labels	67. Shampoo/ conditioner
8. Broom	38. Laboratory glassware	68. Sketch pads
9. Business cards	39. Latex gloves	69. Soap
10. Business forms (various types)	40. Letterhead	70. Soda
11. Calculator	41. Light bulbs	71. Stamps
12. Calendar - desk	42. Lubricants	72. Stapler
	43. Manila file folders	73. Sugar

13. Calendar - wall	44. Maps	74. Tape
14. Capes	45. Marking pens	75. Tea
15. Carpet freshener	46. Mop	76. Three ring binders
16. Clippies	47. Mop bucket w/ dry wringer	77. Toilet cleaner
17. Coffee	48. Napkins	78. Toilet paper
18. Combs	49. Note pads	79. Toilet seat covers
19. Curlers	50. Paints	80. Tool set
20. Deposit slips	51. Paper	81. Toys
21. Detergent	52. Paper - copy machine	82. Trash bags
22. Dispensers	53. Paper - fax	83. Trash can
23. Duct tape	54. Paper clips	84. Vacuum bags
24. Electronic parts (cables, connectors, wires, etc.)	55. Paper cups	85. Video re-winder
25. Envelopes	56. Paper towels	86. Water (drinking)
26. Erasers	57. Pens/ pencils	87. White-out
27. First aid kit	58. Post-it notes	88. Windex
28. Floor mats	59. Power cords	89. X-acto knives
29. Floppy disks	60. Printer ribbons/ cartridges	90. Zip strip
30. Fuses		

8) *Occupancy Expenses*

There are many costs associated with operating your business at any particular location. Some of these costs may be evenly spread over a period of twelve months, but many will vary greatly from month to month. It is important to project these expenses out on a month-by-month basis – this will enable a more accurate picture of cash-flow implications for your firm.

Expenses should be broken down into the following areas:

- Rental Expenses – Any mortgage payments should be broken down by principle and interest itemizations, but they should be itemized under **“Debt” (Section 3 above)**.
- Electricity (be sure to include deposits and installation fees) Also be sure to include the costs of changing or adding varying voltage systems (e.g., add 220v lines and outlets).
- Gas (be sure to include deposits and installation fees)
- Water (be sure to include deposits and installation fees) You can usually obtain an idea on these expenses from a local Building Department or Small Business Bureau.
- Telephone – How many telephone lines will you need? For telephone, facsimile, and internet access? Do you need a “key” telephone system? What are the installation and set up fees? Monthly charges? Project out variable use of these resources based on cyclic demand trends. The cost for the telephone system itself should be itemized under fixed assets.
- Trash (be sure to include deposits and installation fees) Some cities use trash permits as the method of choice for “business licensing.”

9) Start up expenses

What are the one-time start-up expenses? What will it take to open your doors for business for the first time? When determining these amounts, one month's expenses will most likely be sufficient to cover all of the costs because these expenses will almost always occur prior to the actual opening. Existing businesses will not have these expenses and this section should be skipped.

The expenses we need to note are:

- Permits required by the city or municipality
- Licenses required by regulatory bodies or need to conform to industry standards (these may become annual expenditures)
- Pre-opening expenses – This may include expenses for marketing research, or the legal assistance fees or accounting fees while organizing your business, incorporation fees, or filing fees. Your tax bill will be impacted by the way you treat these start-up expenses. You can not deduct these types of expenses if they incur before the business actually starts. However, if you incurred them before your business actually started, you make a special election to write them off over a period of five years (60 months) or more. It is vital that you keep accurate records of what these expenses were, prior to start-up, and that you choose the 60-month write-off election as soon as your business gets started. If you do not choose the 60-month election, you must capitalize these expenses, which means you cannot recoup them until if, and when, you sell the business.