Staatlich anerkannte, private Fachhochschule des Mittelstands (FHM)

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Topic introduction

The fifth study letter, which you can work on as part of the preparation of your business plan, deals with the topics: Profit & loss account, liquidity planning, budgeted balance sheet & annual financial statement as well as the assessment of the "opportunities and risks" that your business plan entails. The modules that you will now work on consistently continue the systematic approach of the business plan. At the beginning, you have outlined your idea and shown how money can be made with it. Then you created the framework conditions and worked on the market. Marketing was followed by sales planning, calculating prices and planning finances. In this last part, you plan the profit and loss account and the annual financial statement. The figures you prepare here are a consequence of the previously planned areas. If everything is coherent, they show the observer at a glance whether it makes sense to allocate money to this enterprise or not. Therefore, in this last part it is especially important to show the conscientiousness of a proper businessman.

Learning objectives

At the end of this chapter

- know how to prepare a profit and loss account for your business,
- you are able to carry out liquidity planning,
- you can prepare an annual financial statement,
- you can assess the opportunities and risks of your start-up.

5 Profit & loss account, liquidity planning, budgeted balance sheet & annual financial statements, opportunities and risks

5.1 Profit & Loss Account (P&L)

5.1.1 Profit & Loss

The **profit and loss account (P&L)** and the income statement are period accounts. They refer to a specific period (day, month, year). The profit is determined as the balance between the expenses and income or costs and revenues incurred in the period. By breaking down the components affecting profit or loss in the income statement, the sources of profit or loss become visible.

The profit and loss statement shows the earnings situation and profitability of the company. The result is the profit or loss. A profit increases the equity capital and thus increases the profitability. A loss that has to be absorbed consumes the capital.

The profit and loss statement is prescribed for reasons of commercial and tax law. The profit also serves as the assessment limit for taxes. The legal regulations for the P&L are in the German Commercial Code (HGB).

The calculation parameters for the P&L are "expenses" and "income". An expense consumes capital, an income increases capital. In contrast to liquidity planning, which aims at planning and securing cash, the P&L calculates increases or decreases in assets in the course of the business year.

The P&L must be carried out annually. An accrual of expenses and income shall be made at the end of the year. If a product or service is sold in the current financial year, the revenue from the sale shall be allocated to the current year, even if payment is delayed in the next financial year.

Profit can refer to the entire entrepreneurial success, to cost accounting-related sub-areas (department, profit centre, locations), to neutral earnings or to financially-related success. Depending on the need for consideration, different calculations result.

Types of profit:

Term	**Calculation**	***Outline criterion***
Company profit	Income- Expenses	= *Part of corporate accounting*
Total profit or operating profit	Services - Costs	= *Part of cost accounting*
Surplus	Expenditure- Revenue	= Part of the *financial tax bill*

Business profit or the total profit of a business is the difference between income and expenses. Profit in the true sense is the "entrepreneurial profit" or "profit" that would remain as profit after deducting entrepreneurial wages, return on equity and risk premium.

Total profit or operating profit includes as cost components the entrepreneur's salary as well as interest on equity capital, insofar as these are perceived by the entrepreneur.

In the calculation of taxable profits, surplus is the part that remains after deduction of all taxes. In financial accounting, surplus is the part that secures liquidity (solvency).

The determination of profits for merchants who are not obliged to keep accounts (sole traders, freelancers) is carried out by means of the income-surplus account. All income and expenses are taken into account. The profit or loss results from the difference between operating income and operating expenses. The tax consideration takes place within the framework of the Income Tax Act as personal profit.

Example: Revenue surplus account

	Operating income 2019	100.000 €
./.	Operating expenses 2019	60.000 €
=	Profit 2019 (net profit for the year)	40.000 €

	Operating income 2020	120.000 €
./.	Operating expenses 2020	135.000 €
=	Loss 2020 (net loss for the year)	- 15.000 €

An income statement can be regarded as a preliminary stage of a profit and loss account. Like the profit and loss account, it is to be prepared monthly and with annual totals. The types of costs differ.

Note on the business plan:

Schemes of a revenue and profit account and a profit and loss account (P&L) are shown below. They contain cost items that do not occur in every company. Nevertheless, the aim of the list is to know them as cost items.

The invoices used in the business plan should relate individually to the facts of the business. The individual accounts should be explained and presented in such a way that a third party can understand them.

5.1.2 Income statement

Plan income

A. Revenue - Income	Month Jan. 1	Month Feb. 2	Month X 3...	Sum 1st year	Sum 2nd year	Sum 3rd year
Revenues	€	€	€	€	€	€
+ Revenues product group I						
+ Product A, B...						
+ Revenues product group II						
+ Service A, B...						
+ Revenues merchandise						
+ other revenues						
- Discounts/bonuses granted						
= Total I Sales revenue						
+ Interest income						
+ other income						
+ Extraordinary income						
= Sum II Revenues						

Plan expenditure

B. Expenditure - Expenses	**Month Jan. 1**	**Month Feb. 2**	**Month X 3...**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
Cost of sales	€	€	€	€	€	€
+ Raw materials, consumables and supplies fabrics						
+ Goods						
+ External services						
+ discounts/bonuses received						
= Total cost of sales						
+ Personnel expenses for third parties						
+ Wages, salaries,						
+ external wages						
+ Social security contributions						
+ Employer's Liability Insurance Association						
+ voluntary social Expenses						
= Sum Personnel expenses						
+ other operating Expenses						
+ Rental expenses, rooms						
+ Gas/electricity/water/heating						
+ Cleaning of operational Rooms						
+ Maintenance of operational Rooms						
+ Disposal						
+ Insurances						
+ Contributions. Fees						
+ Maintenance machines, Factory equipment						

+ Motor vehicle insurance, motor vehicle Repair, operating costs	Month Jan. 1	Month Feb. 2	Month X 3…	Sum 1st year	Sum 2nd year	Sum 3rd year
+ advertising costs						
+ travel expenses						
+ Entertainment costs						
+ postage, telephone/internet						
+ Legal advice, Tax consultancy						
+ commissions						
+ Technical literature						
+ leasing costs						
+ Office supplies						
+ Warranties						
+ Other costs						
+ Interest expenses, Incidental costs of the Money transactions						
+ taxes						
= Sum Other operational Expenses						
+ extraordinary Expenses						
- Entrepreneurial wage / private withdrawal						
= Sum Plan income - Plan expenditure						
= Monthly surplus / -loss Net profit for the year / -loss						

5.1.3 Profit & Loss Account

Plan profit and loss account (P&L) in Euro

A. Income - Revenue	**Month Jan. 1**	**Month Feb. 2**	**Month X 3...**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
Revenues	€	€	€	€	€	€
+ Revenues product group I						
Product A, B...						
+ Revenues product group II						
Service A, B...						
+ Revenues merchandise						
+ other revenues						
- Discounts/bonuses granted						
+ Changes in inventories						
+ other operating income						
+ Income from reversals of Provisions						
+ other income ordinary business						
+ Write-ups from fixed assets						
= Total sales revenue						

Expenses - Expenditure	**Month Jan. 1**	**Month Feb. 2**	**Month X 3...**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
- Material costs						
- Raw materials and supplies						
- Goods						
- External services						
+ discounts/bonuses received						
- Personnel costs, wages, - salaries						
- Social security contributions						
- Employer's Liability Insurance Association						
- Voluntary social Expenses						
- Depreciation						
- other operating expenses						
- Rent, room costs						
- Cleaning of operational rooms						
- Maintenance of operational premises						
- Disposal						
- Insurances						
- Contributions, fees						
- Maintenance machines						
- Maintenance of operating equipment						
- Motor vehicle insurance, repairs, operating costs						
- Advertising costs						
- Travel expenses						
- Entertainment costs						
- Postage/telephone/fax/I-net						
- Legal advice, tax advice						
- Ancillary costs of monetary transactions						
- Commissions						
- Technical literature						
- Leasing costs						
- Office supplies						
- Warranties						
- Losses from the disposal of fixed assets						
- Other costs						
+ Interest income						
- Interest expenses						
= Sum of the costs						
Result from ordinary activities						

+ extraordinary income	**Month Jan. 1**	**Month Feb. 2**	**Month X 3…**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
- extraordinary expenses						
- Taxes						
Total Plan income - Plan expenditure						
= Monthly surplus / -loss Net profit for the year / -loss						

The income statement and the profit and loss account can be summarised in the business plan to the main types of costs.

The profit and loss account is derived from the current "Betriebswirtschaftliche Abrechnung" (BWA). It is derived by determining the current income and current expenses. A monthly update is a basic requirement in order to be able to control the profit and loss.

5.2 Liquidity planning

Liquidity is defined from the company's liabilities to liquid assets. The company must be able to meet its current obligations at all times. Even a profitable business can become insolvent - illiquid. This can happen, for example, if a main customer itself defaults on payments or a loan can no longer be serviced on time. Liquidity problems are among the biggest problems and most frequent causes of insolvency. Young companies are often affected by this because they do not have enough equity capital available. To prevent this from happening, liquidity must be planned.

Liquidity planning must be carried out systematically. The liquidity calculation must be based on a monthly business management statement (BWA) and the profit and loss statement. All income and expenditure must be compared. A prerequisite for this is a meaningful cost accounting system. The monthly surplus (surplus cover) or deficit (deficit cover) results from the difference between income and expenditure.

The calculation parameters for liquidity planning are receipts = payments in and expenditures = payments out. These directly change the available financial resources (cash or cash equivalents). The actual time of payment is decisive for the actual recording or allocation of incoming payments and outgoing payments, as this results in a direct change in the cash balance in the company. It is not the date of invoicing that is significant, but the actual payments in and payments out.

In order to facilitate planning in a business plan, it is initially sufficiently accurate to assume the income statement data as the basic data for liquidity planning. The P&L data should be considered and explained from a liquidity impact perspective. If payment delays are to be expected in revenues or in disbursements, these should be explicitly named.

Depreciation and imputed costs that increase expenses in the income statement must be considered separately in liquidity planning. As these are non-cash transactions, they increase liquidity.

In order to determine liquidity, all incoming payments must be compared to all outgoing payments. In order to ensure liquidity at all times, the sum of incoming payments must always be greater than the sum of outgoing payments. The company thus builds up a liquidity reserve. If the sum of outgoing payments exceeds the sum of incoming payments, capital must be injected. This is done through financial planning or capital requirements planning. The sum of all negative individual amounts or the operating result in the P&L results in the total capital requirement over the planning period.

5.2.1 Liquidity levels

The term liquidity has a double meaning.

a) Liquidity as a property of an asset (fixed capital),

b) Liquidity as a company's willingness to pay (working capital).

To a) How quickly can an object be converted into money?

Re b) How can the payment obligations always be met on time?

The comparison of cash and cash equivalents with liabilities yields the liquidity ratio. Liquidity ratios:

- Liquid funds 1st order = cash liquidity that is immediately tangible such as cash, bank and postal cheque balances, discountable bills of exchange.
- Liquid funds 2nd order = collection-related liquidity that can be made liquid within 3 months, e.g. customer receivables, securities.
- Liquid funds 3rd order = turnover-related liquidity that can only be made liquid after a longer period of time, e.g. work in progress, raw materials.
- Illiquid assets are those that are very difficult to convert into cash, such as land, buildings, machinery.

1st degree liquidity:

$$\frac{\text{Cash and cash equivalents 1st order}}{\text{Current liabilities}} * 100\,\% \rightarrow \frac{15.000\text{ €}}{50.000\text{ €}} * 100 = 30\,\%$$

Liquidity 2nd degree:

$$\frac{\text{Cash and cash equivalents 1st + 2nd order}}{\text{Current liabilities}} * 100\,\% \rightarrow \frac{60.000\text{ €}}{50.000\text{ €}} * 100 = 120\,\%$$

Liquidity 3rd degree:

$$\frac{\text{Fl. means 1st + 2nd + 3rd order}}{\text{Current liabilities}} * 100\,\% \rightarrow \frac{90.000\text{ €}}{50.000\text{ €}} * 100 = 180\,\%$$

5.2.2 Generate liquidity

1. Liquidity planning must first be based on the capital required for investments. The equity capital and the borrowed capital are to be determined. The capital deficit must be determined. The dates for investments etc. must be determined and summarised in a payment plan.
2. Next, the planned turnover and the revenues are to be determined from the income statement or the profit and loss account. All disbursements are to be deducted from the revenues.
3. It must be determined whether the revenues (proceeds) have been received in the own account at the specified time or whether a delay in payment is to be assumed. In the case of payment terms of 30 days, the revenue entry in the liquidity planning must be postponed by this period. This is particularly important when setting up a business, as income may be slow in coming in during the first few weeks. An OP list (open items) is necessary. In the event of delayed payment, several months' revenue should be planned as liquidity credits in the capital requirements planning.
4. The income is to be compared with the expenses (costs). All costs of the P&L are to be included. It should be noted that depreciation increases liquidity.
5. When determining the expenditure of money, it must be determined how high the monthly surpluses and losses are. Surpluses contribute to liquidity, losses have to be financed.
6. Liquidity can be severely strained in the case of outstanding debts (receivables). Collecting debts through dunning procedures is a costly and unpleasant business. It must be determined how high the outstanding debts can be for a transaction, and liquidity must be kept available for this.
7. Accounts receivable can be turned into revenue with the help of factoring. With factoring, a company assigns its accounts receivable to a specialised company (factor) and receives a part of the receivables paid out immediately in return. The loss of receivables has an effect on liquidity. Checking suppliers and customers is the best precaution against bad debts.
8. In order to generate liquidity, the company's own liabilities must be collected. On the other hand, the company can exhaust payment targets itself.
9. The planning and constant control of liquidity is a matter for the boss. Those who do not have a constant overview of the commercial processes in their company are at high risk.

5.2.3 Liquidity forecast

Liquidity can be calculated in the business plan on the basis of the profit and loss account (P&L). This simplifies the calculation, as the positions can be taken over directly and adjusted to the liquidity forecast.

A. Revenue	**Month Jan. 1**	**Month Feb. 2**	**Month X 3...**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
	€	€	€	€	€	€
Liquidity status:						
Investment income						
+ Income from equity						
+ Income from borrowed capital						
= Total initial liquidity						
Revenue from sales						
+ Total sales revenue						
+ Total other operating income						
+ Changes in inventories						
+ Income from reversals of provisions						
+ other income Ordinary business activity						
+ Write-ups from fixed assets						
+ Total depreciation						
Revenue from sales						
Total revenue = liquidity						
Expenditure						
- Preliminary costs of the foundation						
- Expenditure of the corporate purchase						
- Expenditure for investments						
- Rental deposit expenses						
Current operating expenses						
- Sum of the material costs, Auxiliary costs...						
- Total external costs						
- Total personnel costs						
- Total social costs						
- Total other operating expenses						
- Total rental costs, ancillary costs...						
- Total insurance						
- Total maintenance						
- Total marketing						
- Total consulting costs, legal, taxes...						

- Total borrowing costs, monetary transactions						
- Total leasing						
- Losses from the disposal of fixed assets						
- Losses from the formation of Provisions						
- Other costs						
- Interest expenses						
Total expenditure						
Result of ordinary activities Business activity	€	€	€	€	€	€
+ extraordinary income	**Month Jan. 1**	**Month Feb. 2**	**Month X 3...**	**Sum 1st year**	**Sum 2nd year**	**Sum 3rd year**
- extraordinary expenses						
- Taxes						
- Expenditure on investments Performance readiness						
- Expenditure for investments in the production of services						
- Expenses of the company foundation / takeover						
- Extraordinary losses, bad debts						
Surplus = liquidity • ***There shall be no shortfall arise!***	€	€	€	€	€	€

* There must be no shortfall in the liquidity planning of the business plan, otherwise the insolvency of the enterprise would have to be established. Liquidity gaps must be made up beforehand! by increasing equity or debt capital.

5.3 Planned balance sheet / annual financial statement

5.3.1 Annual accounts

At the end of each business year, a review of the financial statements, the annual financial statement, is required. The purpose of these is to establish for the owners and also the tax authorities whether and how successful the company has been.

The type and scope of the annual financial statement are determined by the legal form. In the case of start-ups, the revenue-surplus account or P&L and liquidity planning could be sufficient, while a business report with balance sheet is required for corporations.

It makes sense to prepare the possible **annual accounts in** the business plan in the form of a budgeted balance sheet for the first business year.

For corporations, the business year is concluded with the annual report: the annual balance sheet, a management report and a profit and loss account (P&L).

The annual accounts must determine whether there is a surplus or a loss and how the profit is to be used or how the loss is to be balanced.

Possible use of the surplus:

- Allocation to the statutory reserves,
- Transfer to free reserves,
- the formation of reserves prevents the outflow of funds and represents a form of self-financing.
- Profit shares can be spent privately.
- Profit shares can be distributed as dividends to the partners (GmbH) or the shareholders of an AG,
- Profit carried forward - Carry forward of the residual profit for the account of the company.

Possible ways of dealing with losses:

- Offsetting of the loss against profit carried forward from the previous year,
- Reversal of provisions,
- Increase in equity,
- The shareholders' obligation to make additional contributions.

As long as the loss can be compensated by liquid funds, the company is not yet in danger of becoming insolvent. If losses raise the question of the company's existence, the owner or managing director must initiate insolvency proceedings.

Losses can lead to over-indebtedness of the company. The over-indebtedness of a company means that the company's debts are greater than its assets. In this case, the losses exceed the equity capital. Because the nominal capital may not be changed by annual results, any losses must appear as value adjustments on the assets side of the balance sheet as an underbalance. A capital increase is possible and may be necessary to avoid insolvency.

If an impending insolvency is not reported to the competent district court, the owner or managing director may be held personally liable.

5.3.2 Balance sheet

The **annual balance sheet shows the** value of the enterprise. Capital and assets are expressions of the totality of operational values. They are always equal in size. This is shown arithmetically in the balance sheet, where capital represents the totality of the items on the liabilities side and assets the totality of the items on the assets side.

Structure of the balance sheet

ASSETS - Use of funds (The assets or asset side shows the forms of the assets)	LIABILITIES - Source of funds (The capital or liability side shows the origin of the assets)
Fixed assets: - Property, plant and equipment LandMachineryFurnishingsPlant and equipment - Financial assets InvestmentsSecurities - Intangible assets PatentsLicencesConcessions Current assets: - Current assetsMaterials and supplies - Current financial assets Cash , receivables, cash on hand, credit balances, bills of exchange and chequesOther assets - Accruals and deferrals	Share capital - Equity capital - debt capital Reserves- statutory reserves- free reserves Value adjustments Provisions- pension provisions- other provisions Liabilities- Bonds- to credit institutions- to shareholders- to others Liabilities- from deliveries- from bills- from payments received- to affiliated companies- other liabilities - Accruals and deferrals
Accumulated loss	Balance sheet profit

The **balance sheet approach assumes that** all financing transactions are reflected in the balance sheet. In business terms, the balance sheet is the comparison of the assets on the assets side and the capital on the liabilities side at a certain point in time. Over the course of several years, the balance sheet changes on the assets and liabilities side can be evaluated well. The asset side of the balance sheet shows the investment of assets. It provides information about the financial resources in the form of fixed and current assets. The liabilities side of the balance sheet provides information on the origin of the capital. It shows the source of funds of the equity capital and borrowed capital in the form of liabilities or also provisions.

Example of a balance sheet:

Balance sheet: Assets **Use of funds**	Euro	**Balance sheet: Liabilities** **Source of funds**	Euro
I. Fixed assets		**I. Equity**	380.000
1. land	280.000	**II. debt capital**	
2. building	350.000	1. mortgage debt	320.000
3. vehicle fleet (company car)	150.000	2. loan debts	280.000
4. office and business equipment	90.000	3. liabilities from deliveries and services	35.000
II. current assets		4. provisions	20.000
1. stocks of goods	80.000		
2. trade receivables	37.000		
3. cash desk	3.000		
4. bench	45.000		
Total	**1.035.000**	**Total**	**1.035.000**

5.3.3 Key Performance Indicators

In the annual report and also in the business plan,**key figures** are an important instrument for controlling and managing the company. The compilation and determination of key figures must be carried out on a company-specific basis. It must be decided which key figures are important internally and which could be used for company comparisons.

Key figures of profitability

Return on sales: profit measured against turnover
Return on total capital: profit measured against total capital
Return on equity: profit measured against equity

Key liquidity figures

Liquidity 1st degree: Liquid short-term funds
Liquidity 2nd degree: Liquid medium-term funds
Liquidity 3rd degree: Liquid long-term funds

Key figures of the financial structure

Equity ratio: Equity measured against total capital

Productivity key figures

Trade margin: surplus measured against the sales price
Material intensity: Share of material in the total costs of a product
Cost of materials ratio: Measure of the cost of materials
Personnel intensity: Share of personnel costs in total costs
Personnel expense ratio: Measure of personnel expense

Key figures of economic efficiency

Economic efficiency: Effort used measured against yield - per unit of measurement
Productivity: measured by different units *Employee productivity*: turnover per employee, costs per employee, etc.
Profit centre: Profitability and productivity per economically independent business unit
Capacity utilisation: employment level measured by utilisation, machine utilisation measured by maximum and minimum production

5.4 Opportunities and risks

The **opportunities** and **risks of** the business plan should be worked out. They should already be addressed in the description of the modules. It is important to develop an idea of the opportunities and risks in the business plan. It should be made clear how intensively and professionally the business start-up or take-over has been dealt with. The person who recognises the risks in the planning can deal with them quite differently than the person who is surprised in reality.

Risk: Product description and sales forecast

Among the serious misjudgements in business plans are the inadequate product description and the resulting sales forecast. The offer is only described superficially. Buzzwords are supposed to make the character of the service clear. Anyone who wants to trade must be able to describe the idea of how certain goods are traded in a specific industry. Those who want to advise companies must know how companies function as a whole. Without sufficient experience in management responsibility, such a business idea is almost hopeless. Anyone who wants to sell goods on the internet must conceptually represent more than just creating a functional homepage.

The sales forecast stands and falls with the precisely defined and specified product. Demand is the decisive variable in a business plan. Sales determine the revenue or income. If the target group is wrongly estimated and with it the demand, the business is doomed to failure. The target group description must be directly linked to the product or service. General target group descriptions do not help. What does a distinction between private customers and business customers mean? It has to be much more specific. Target customers must not be recorded globally, but quasi "locally" and "by name".

For example, if you cannot define your target customers precisely, you will have to spend disproportionately high amounts in advertising because the hit rate is correspondingly low.

Risk: Market assessment and sales forecast

The specific market in which a business idea is to be implemented is only insufficiently perceived. There is no or insufficient preoccupation with the specifics of the market, the industry and especially the competition. Those who believe they can simply "run" into the market are mistaken. The markets are distributed and occupied. The markets are defended by competitors with all means. New markets are very rare. Historically, it is a matter of exceptional situations when new markets emerge, such as the internet market. It is common to have to enter a cut-throat competition as a start-up. The experienced companies know "almost" all the tricks of the trade. They usually have more capital and learn quickly. The advantages of a start-up must be worked out so that it can be understood. Advantages usually lie in flexibility, mobility, low costs. That is what needs to be described.

Risk: Financing and cost accounting

Business ideas rarely fail because of capital; they fail much more because of the founders themselves and inadequate financial planning and cost accounting. According to a study by KfW Mittelstandsbank, the linchpin is the founders themselves. Founders rarely lack professional qualifications. But they lack commercial and entrepreneurial knowledge all the more. Good industry experience is the key to success.

If the financing of a company is weak and then the cost accounting or the preparation of the P&L is delayed, the failure of the company can hardly be avoided. Adequate financing is able to survive even economically weak stretches.

Many founders have often misjudged their short-term capital needs when financing their start-up, and as a result have planned their liquidity incorrectly. Problems arise in this situation especially when customers are slow or do not pay. It is also dangerous if the price for a company purchase is too high or if the amount for a company succession is too high.

Turning risks into opportunities

In the business plan, it is important to identify risks in order to turn them into opportunities. Risks must be designed in such a way that a company can deal with them successfully. This is possible when the "pain thresholds" are calculated at the minimum or maximum. In any case, the possible minimum must be determined in the sales forecast or turnover planning in order to determine how large the financial requirements are. It represents, so to speak, the lower limit of revenues and income.

The aim is to develop and calculate planning scenarios or variants that show the lowest and the highest possible risk. This makes it possible to identify a corridor for entrepreneurial action. Once the largest possible financial gap has been identified, the maximum liquidity credit can be correspondingly higher or lower. In reality, the lean period can be mastered and the enterprise can successfully establish itself in the market.

The prerequisite for recognising opportunities is to identify the risks and turn them into opportunities. A business plan is convincing when it can offer convincing arguments and solutions for the entrepreneurial risks.

Summary of the chapter

You have now learned about all the modules that are important for your business plan to present a coherent picture.

The profit and loss account provides information about the earnings situation of your company and makes the sources of success visible.

Liquidity planning is also an important point that needs consistent monitoring. Your company must be able to meet its obligations at all times. Insolvency and over-indebtedness are the reasons that lead to insolvency.

Finally, you should prepare a balance sheet for your business. The balance sheet provides information about the financial structure of your company and allows you to evaluate the company at a glance. It should therefore be evident that you have planned your company cleanly and precisely. Otherwise, a trained eye will recognise weaknesses at first glance.

Last but not least, the presentation of opportunities and risks is missing. Even if you have planned your enterprise with the utmost care, it is still an untested concept in its form. At one point or another you will certainly have assumed general conditions that are positive for you. Of course, this can have fatal consequences when implementing a business plan. However, if you know the risks exactly and can assess them, you are well prepared and have a good chance of surviving the difficult start-up phase of a business. In addition to the risks, however, the opportunities should also be presented realistically. After all, you should be prepared for "almost" anything in order to be able to meet a corresponding demand. After all, you don't want to disappoint your new customers by running into delivery problems because you underestimated demand.

Conclusion

You have now received a lot of input that you need to create your business plan. You may also be looking at an unmanageable mountain that commands your respect. As mentioned at the beginning, it will help if you make a detailed project plan that you stick to as much as possible. If you work through the individual modules of the business plan one after the other, you will not get bogged down.

Use the checklists at the end of each module to jot down thoughts and ideas that you will write down later at your leisure. For the various tables, some of which have to be created on a monthly basis, the use of spreadsheet software is particularly suitable. You don't have to be an expert - with a simple sum formula you can greatly simplify your work and, above all, try out a little what happens when you change some adjusting screws, such as the monthly sales quantity.

The business plan is a practical tool that you can also use in many other situations in a company. Overall, the business plan conceives the overall context of a business.