



TX VRC Resource Tool

Adjusting Owner's Draw

Introduction

This resource tool is designed to help VR Counselor's, and CBTAC's assist VR customers with understanding how and why adjustments to the owner's draw are needed when completing the VR-1805 Financial Projection Spreadsheets.

Why Adjust the Owner's Draw?

The VR-1805 Financial Projection Spreadsheets provide both projections of business financials and projections of the business owner's overall income. The Profit and Loss (P&L) projections, Cash Flow projections and Break-Even Analysis help prospective business owners see the financial feasibility of the business. The Personal Income and Benefit Analysis sections provide personalized information on Social Security benefits (if applicable), as well as, any projected discretionary income remaining after factoring business monthly expenses.

To calculate benefits information, the spreadsheets draw from data entered in the Profit and Loss (P&L) section of the Projections tab. The spreadsheet automatically takes the net profit from the business, converts it to Net Earnings from Self-Employment (NESE), and distributes it equally across 12 months as "Owner's Draw". You will see this in the Cash Flow section of the Projections tab of the spreadsheet (see Figure 1, Line 83 – Owner's Draw). NESE is distributed across 12 months so the spreadsheet can accurately project how Social Security benefits will be impacted in the Benefits Analysis Section.

In reality, the business owner will likely not draw the entire amount projected (1/12 of NESE) for a number of reasons:

1. These are projections and may not accurately reflect the actual amount of net profit.
2. The spreadsheet distributes income across 12 months regardless if the business has operated less than 12 months (for example: the business in Figure 1 didn't launch until July).
3. Business owners will likely want and need to accrue equity in their business account to create a cushion and save for future purchases.

Thus, all prospective business owners, with the help of their CBTACs and VR counselors will need to adjust the owner's draw on the VR-1805 Financial Projection Spreadsheet before submitting it with the business plan for approval.

FIGURE 1 – Unadjusted Cash Flow Projection

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|-----------------------------------|------|------|------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| Cash Flow | | | | | | | | | | | | | |
| Starting Cash | | -332 | -665 | -997 | -1,329 | -1,661 | -1,994 | -2,056 | -1,763 | -1,448 | -1,218 | -655 | |
| Cash In | | | | | | | | | | | | | |
| PASS | | | | | | | | | | | | | |
| Total Sales | | | | | | | 800 | 850 | 875 | 975 | 1,150 | 1,325 | 5,975 |
| TX RSD (VR) Funding | | | | | | | | | | | | | |
| Owner's Cash Infusion | | | | | | | | | | | | | |
| Loan/ other cash inj. | | | | | | | | | | | | | |
| Other (Specify) | | | | | | | | | | | | | |
| Total Cash In | | | | | | | 800 | 850 | 875 | 975 | 1,150 | 1,325 | 5,975 |
| Cash Out | | | | | | | | | | | | | |
| Total cost of sales | | | | | | | 80 | 85 | 88 | 98 | 115 | 133 | 598 |
| Accounting/Tax Prep | | | | | | | 200 | | | | | | 200 |
| Advertising (quarterly ads) | | | | | | | 50 | | | 50 | | | 100 |
| Internet | | | | | | | 60 | 60 | 60 | 60 | 60 | 60 | 360 |
| Insurance | | | | | | | 20 | | | 125 | | | 145 |
| Supplies (office and operational) | | | | | | | 60 | 20 | 20 | 20 | 20 | 20 | 160 |
| Telephone | | | | | | | 60 | 60 | 60 | 60 | 60 | 60 | 360 |
| Other expenses (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Miscellaneous | | | | | | | | | | | | | |
| Loan Interest | | | | | | | | | | | | | |
| Total TX RSD (VR) Expenses | | | | | | | | | | | | | |
| Loan principal payment | | | | | | | | | | | | | |
| Capital purchase (specify) | | | | | | | | | | | | | |
| Owner's Draw | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 3,988 |
| Total Expenses | 332 | 332 | 332 | 332 | 332 | 332 | 862 | 557 | 560 | 745 | 587 | 605 | 5,910 |
| Ending Cash | -332 | -665 | -997 | -1,329 | -1,661 | -1,994 | -2,056 | -1,763 | -1,448 | -1,218 | -655 | 65 | 65 |

How to Adjust the Owner's Draw

Note that Line 83 (Owner's Draw) is locked because the cells contain formulas (all white cells are locked). Since you can't change the owner's draw on Line 83, you will need to add the difference in what was projected and what was actually taken out on Line 54 of the Cash Flow Statement under the section "Cash In". This might include all or part of the amount of owner's draw shown on Line 83, depending on if any owner's draw was taken out.

1. If the business will not operate that month, or no owner's draw is anticipated to be taken out, enter the total amount shown on Line 83 into Line 54 as an "Owner's Cash Infusion".
2. If the business owner expects to take an owner's draw that is less than the calculated amount, enter the difference between the amount shown on Line 83 and the amount actually taken out on Line 54.

You'll see an example for Sarah in **Figure 2**. Sarah is starting a clothing alteration and repair business within a large dry-cleaning business in her community (a business within a business).

She plans to launch the business in July and build up slowly during the last two Quarters of Year 1.

You'll see in Figure 2 that her Year 1 Net Profit is automatically converted to Net Earnings from Self Employment (NESE = Net Profit x .9235), then divided by 12 = \$332/month which is assigned as Owner's Draw on Line 83. But because the business didn't launch until July, she has added the \$332/month back in on Line 54 (Owner Cash Infusion) so that her ending cash prior to business launch remains at zero (\$0).

All Prospective Business Owners, with the help of their CBTAC's and VR Counselors will need to adjust the owner's draw on the VR-1805 Financial Projection Spreadsheet.

In addition, Sarah would like to build up some capital in her business and has agreed to take out only \$300/month of Owner's Draw during the second six months of Year 1 (July - Dec). The difference between what was projected (\$332/month) and what is expected to be taken out (\$300) is entered on line 55 (\$322 - \$300 = \$32/month).

FIGURE 2 - Adjusted Cash Flow Projections

| Cash Flow | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|-----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| Starting Cash | | 0 | -1 | -1 | -1 | -1 | -2 | -32 | 293 | 640 | 902 | 1,497 | |
| Cash In | | | | | | | | | | | | | |
| PASS | | | | | | | | | | | | | |
| Total Sales | | | | | | | 800 | 850 | 875 | 975 | 1,150 | 1,325 | 5,975 |
| TX RSD (VR) Funding | | | | | | | | | | | | | |
| Owner's Cash Infusion | 332 | 332 | 332 | 332 | 332 | 332 | 32 | 32 | 32 | 32 | 32 | 32 | 2,184 |
| Loan/ other cash inj. | | | | | | | | | | | | | |
| Other (Specify) | | | | | | | | | | | | | |
| Total Cash In | 332 | 332 | 332 | 332 | 332 | 332 | 832 | 882 | 907 | 1,007 | 1,182 | 1,357 | 8,159 |
| Cash Out | | | | | | | | | | | | | |
| Total cost of sales | | | | | | | 80 | 85 | 88 | 98 | 115 | 133 | 598 |
| Accounting/Tax Prep | | | | | | | 200 | | | | | | 200 |
| Advertising (quarterly ads) | | | | | | | 50 | | | 50 | | | 100 |
| Internet | | | | | | | 60 | 60 | 60 | 60 | 60 | 60 | 360 |
| Insurance | | | | | | | 20 | | | 125 | | | 145 |
| Supplies (office and operational) | | | | | | | 60 | 20 | 20 | 20 | 20 | 20 | 160 |
| Telephone | | | | | | | 60 | 60 | 60 | 60 | 60 | 60 | 360 |
| Other expenses (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Miscellaneous | | | | | | | | | | | | | |
| Loan Interest | | | | | | | | | | | | | |
| Total TX RSD (VR) Expenses | | | | | | | | | | | | | |
| Loan principal payment | | | | | | | | | | | | | |
| Capital purchase (specify) | | | | | | | | | | | | | |
| Owner's Draw | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 332 | 3,988 |
| Total Expenses | 332 | 332 | 332 | 332 | 332 | 332 | 862 | 557 | 560 | 745 | 587 | 605 | 5,910 |
| Ending Cash | 0 | -1 | -1 | -1 | -1 | -2 | -32 | 293 | 640 | 902 | 1,497 | 2,249 | 2,249 |

In this case, Year 1 represents a start-up period, where Sarah is taking out very little in Owner's Draw. In Year 2 you will need to help Sarah determine a reasonable Owner's Draw, given her Ending Cash each month. Year 2 Annual Net Profit is converted to NESE and divided by the 12 months of the year, in this case, projecting an Owner's Draw of \$1140/month. You'll see that if Sarah takes out the full \$1140/month of Owner's Draw she will maintain approximately \$2,000 in her business bank account to cover any unanticipated expenses. This may be sufficient, or she may need to make additional adjustments.

Keeping the business cash flow positive is critical to business success. You will need to discuss potential future needs with VR customers and determine the amount of operating cash the business needs to have available before determining Owner's Draw.

Note – for Supported Self-Employment, part of the closure criteria includes having at least 3 months of operating cash built up in the business account.

Figure 3 – Year 2 Cash Flow Without Additional Adjustments

| | 1 | | | | | | | | | | | | Total |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | |
| Cash Flow | | | | | | | | | | | | | |
| Starting Cash | 2,249 | 2,024 | 1,959 | 2,006 | 1,578 | 1,760 | 1,898 | 1,793 | 1,862 | 1,842 | 1,907 | 2,067 | 2,249 |
| Cash In | | | | | | | | | | | | | |
| PASS | | | | | | | | | | | | | |
| Total Sales | 1,250 | 1,350 | 1,475 | 1,475 | 1,625 | 1,575 | 1,500 | 1,500 | 1,400 | 1,550 | 1,600 | 1,625 | 17,925 |
| TX RSD (VR) Funding | | | | | | | | | | | | | |
| Owner's Cash Infusion | | | | | | | | | | | | | |
| Loan/ other cash inj. | | | | | | | | | | | | | |
| Other (Specify) | | | | | | | | | | | | | |
| Total Cash In | 1,250 | 1,350 | 1,475 | 1,475 | 1,625 | 1,575 | 1,500 | 1,500 | 1,400 | 1,550 | 1,600 | 1,625 | 17,925 |
| Cash Out | | | | | | | | | | | | | |
| Total cost of sales | 125 | 135 | 148 | 148 | 163 | 158 | 150 | 150 | 140 | 155 | 160 | 163 | 1,793 |
| Accounting/Tax Prep | | | | 300 | | | | | | | | | 300 |
| Advertising (quarterly ads) | 50 | | | 50 | | | 50 | | | 50 | | | 200 |
| Internet | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 720 |
| Insurance | 20 | | | 125 | | | 125 | | | | | | 270 |
| Supplies (office and operational) | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 240 |
| Telephone | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 720 |
| Other expenses (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Other (specify) | | | | | | | | | | | | | |
| Miscellaneous | | | | | | | | | | | | | |
| Loan Interest | | | | | | | | | | | | | |
| Total TX RSD (VR) Expenses | | | | | | | | | | | | | |
| Loan principal payment | | | | | | | | | | | | | |
| Capital purchase (specify) | | | | | | | | | | | | | |
| Owner's Draw | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 1,140 | 13,683 |
| Total Expenses | 1,475 | 1,415 | 1,428 | 1,903 | 1,443 | 1,438 | 1,605 | 1,430 | 1,420 | 1,485 | 1,440 | 1,443 | 17,925 |
| Ending Cash | 2,024 | 1,959 | 2,006 | 1,578 | 1,760 | 1,898 | 1,793 | 1,862 | 1,842 | 1,907 | 2,067 | 2,249 | 2,249 |