Business Rules

How Startup Financial Plan AI builds your financial plan

Document	Business Rules — Startup Financial Plan AI (www.startupfinancialplan.ai)
Version	1.4, 19 October 2026 (no salvage value is assumed, D-349; step names as on the Hub, D-367). 1.3, 17 October 2026 (small-asset purchase policy with a $2,500 default, D-341; payroll in the start-up reserve, D-342; tax by tax treatment, D-340; seasonal pattern for Years 2-3, D-344). 1.2, 15 October 2026 (renewal at $99, D-324/D-327; current portion of loans, D-330; ProSight, D-330). 1.1, 10 October 2026.
Describes	How the software works at launch: the free Steps 1-4 and the paid 3-Year Financial Plan (Steps 5-10).

Why this document exists

A financial plan is only as trustworthy as the rules behind it. To build your plan, the software applies a range of business rules and calculations. This document discloses them, step by step, so that you — the business owner — can see exactly what is behind your numbers and answer the question: how did this software create my financial plan?

Your plan is a planning tool. It is built to give a reasonable, rough-order-of-magnitude picture of your business that a non-expert can complete and trust, not a GAAP-precise financial report. Where a simple rule would materially distort the result, a better (but still simple) rule is used, and it is described here.

The founder, Matt Evans, welcomes your comments and suggestions to improve how the software builds your plan: **matt@startupfinancialplan.ai**

Rules that apply everywhere

G.1 Every transaction is treated as happening at the END of its month. That is why depreciation and loan payments begin the month after an asset is bought or a loan is received.

G.2 Amounts are displayed in whole U.S. (United States) dollars; calculations keep the cents.

G.3 Every amount is recorded once, as a balanced double entry (debits equal credits). The balance sheet must balance at every month end.

G.4 Cash is never typed in. It is the result of every sale collected and every bill, payment and loan movement, shown month by month in the cash flow statement.

G.5 One-time items — start-up costs, the contingency reserve, pre-opening staffing and one-off income such as grants — appear in Year 1 only. They are never repeated in Years 2 and 3.

G.6 Your entries in the free Steps 1-4 are kept on your own computer, not on our servers, until you buy the 3-Year Financial Plan and give your consent.

G.7 When you buy the 3-Year Financial Plan, you have 12 months to edit your plan and regenerate your reports.

G.8 After the 12 months, editing and report regeneration stop until you renew. A 12-month renewal costs $99; it can be bought from 30 days before your 12 months end, or at any time after, and it adds 12 months from the later of your payment date and your old end date. Renewal is never automatic, and no promotion code applies to it. Whether or not you renew, you keep permanent access to view and download every report you produced.

Step 1 — Estimate Startup Costs

Assets

1.1 Assets are recorded at the full cost to place them in service, and the purchase is treated as taking place at the end of the month you enter. The month of purchase is required for every asset, because it drives both depreciation and any loan payments.

1.2 Each asset is given a default useful life. Default lives are estimates informed by IRS guidelines; change them to match how long you expect to use the asset. Acquired intangible assets such as patents default to 15 years. Land is never depreciated. Small-asset purchase policy: to keep your forecast simple, equipment, furniture, computers and other tangible business property costing $2,500 or less per item is recorded as an expense in the month you buy it, even when it will last more than a year; so is anything used up within 12 months. Purchases over $2,500 that last more than a year are recorded as assets and depreciated. $2,500 is the default (it matches the IRS de minimis safe-harbor amount); you can change it under Advanced settings in Step 1. Inventory, building improvements, software and other intangible assets follow their own rules. This policy is for financial planning; review it with a qualified tax or accounting professional before adopting it for financial reporting or tax purposes.

1.3 Every asset starts on straight-line depreciation (an equal amount each month), beginning the month after purchase and stopping when the asset is fully depreciated. In Step 5 you are offered guidance to switch an asset to a faster method if straight line would misstate its value — for example vehicles, which lose value quickly: Sum-of-the-Years' Digits (more depreciation in the early years) or Double Declining Balance (the most in the early years). The method you settle on is then used for Years 2 and 3 as well.

1.4 No salvage value is assumed: each asset is depreciated down to zero over its useful life. If you expect to sell an asset before it is fully worn out, choose a shorter useful life instead. (We will ask our beta testers whether they would like an optional salvage value.)

1.5 Every asset requires a down payment, from 0% up to 100% of its cost. Where the down payment is under 100%, the software creates a term loan for the balance and passes it to Step 2.

Operating expenses

1.6 Operating expenses are chosen from a standard chart of accounts and entered as one typical month. They are shown in three groups: your big, controllable costs; regular running costs; and small and miscellaneous items. Small items such as flat bank fees are booked to General & Administrative. You map the month-by-month pattern in Step 4.

1.7 Three costs that move with your sales — sales commissions, freight and delivery, and card processing fees — are entered as a percentage of sales, not a dollar amount. Their amounts are calculated once you have sales. They are used in the break-even calculation and are not part of the start-up operating reserve. The application provides recommended ranges (percents) for all three expenses.

1.8 Payroll taxes and benefits are calculated for all W-2 wages, never typed, and shown as two lines: payroll taxes and required employment costs of 10% (the employer's 7.65% Social Security and Medicare plus about 2.35% for unemployment taxes and workers' compensation), which is fixed; and employee benefits of 20%, which you can change, including to 0% if you offer none. Social Security tax stops above an annual wage limit; the forecast does not apply that limit, so it slightly overstates payroll taxes for high earners.

1.9 Self-employment tax (15.3%) and income tax on the profit of a sole proprietorship, partnership, LLC or S-corporation are personal taxes: the profit passes through to your personal tax return and is taxed there. They are not included in your plan, so plan for them separately.

1.10 After you enter your expenses, the software names your three largest expenses and their share of operating expenses.

Start-up operating reserve and contingency

1.11 The start-up operating reserve covers your FIXED monthly operating expenses, including the calculated payroll taxes and benefits (rule 1.8), for 6 months by default, to carry the business toward break-even. You can change the number of months. Costs that move with sales are excluded.

1.12 Initial inventory and pre-opening staffing are optional one-time items in Step 1.

1.13 A contingency reserve is recommended (not required), because start-up costs are hard to estimate. You score your business from 1 to 5 on nine questions; your total score is looked up in a 12-tier table to find a percentage, which is applied to your down payments, one-time ramp-up items and start-up operating reserve.

1.14 Your total estimated start-up cost — the money you must invest for your startup business — is therefore: down payments on assets + one-time ramp-up items + start-up operating reserve + contingency reserve. Additionally, you may need to raise funds through loans as reflected in your funding plan (step 2).

Step 2 — Startup Funding Plan

2.1 Money comes from three sources, each treated differently: equity investments are reported in the equity section of the balance sheet; income sources such as grants, crowdfunding and pitch awards are reported as other income on the income statement; and loans are reported as liabilities on the balance sheet.

2.2 Each equity investment is summed and shown as a percentage of total equity, indicating how profits might be shared among the owners.

2.3 For each asset not fully covered by its down payment, the software creates a loan line, filling in the month (the month the asset was bought), the amount (cost less down payment) and the term (the asset's useful life).

2.4 You enter each loan's annual percentage rate (1% to 35%; terms from 1 month to 50 years). Each loan is repaid in equal monthly payments starting the month after you receive the money; every payment is split into interest on the remaining balance and principal; and the schedule is calculated to the end of the loan.

2.5 Grants and other one-off income are marked one-time automatically and never repeat in Years 2 and 3.

2.6 The software compares your funding plan with your Step 1 total and reports a surplus, fully funded, or a shortfall.

Step 3 — Create Sales Forecast (the top of the income statement, Year 1)

3.1 Sales revenue is units sold × price, for each product or service, month by month. Each product and its price are entered once, followed by up to 12 monthly volumes. A Quick Sales option accepts monthly totals instead.

3.2 An optional volume estimator (target audience × a typical conversion rate for your chosen marketing activity) helps you size your sales, with video tutorials on defining your ideal customer and building a prospect list.

3.3 Income sources from Step 2 are carried in automatically, and other income such as royalties from licensing your intellectual property can be added from a drop-down list.

3.4 You choose your seasonal pattern — whether some months are busier than others — stored as 12 monthly factors averaging 1.00 ("about the same every month" is the default). It shapes Years 2 and 3 only: it is used to start them from a fair run-rate. Your Year 1 months stay exactly as you enter them.

3.5 All revenue is summarized for Year 1, with a check that the product totals agree with the revenue summary.

Step 4 — Construct Cost Model (the bottom of the income statement, Year 1)

Cost of goods sold and inventory

4.1 Each product's total unit cost is made up of materials, labor and overhead, and is multiplied by the units sold in Step 3 to give cost of goods sold for the month of the sale. Where unit costs change during the year, you can set tiers by month.

4.2 Alternatively, cost of goods can be a percentage of sales (useful for professional service firms), or — as a fall-back when itemizing is too difficult — an industry benchmark: the gross margin for your two-digit NAICS industry code (18 industry ranges, using the midpoint) is used to impute cost of goods sold: cost of goods sold % = 100% − gross margin %.

4.3 The software flags the month before each product's first sales, so you know stock must be on hand.

4.4 Inventory at each month end equals the days of stock you keep ÷ 30 × the NEXT month's cost of goods; purchases are whatever keeps it there. Days on hand come from 15 product categories (the midpoint is the default — short for fresh food, long for furniture), and you can override them. The final month of the forecast uses its own cost of goods.

4.5 The opening inventory investment is compared with the amount in your Step 1 estimate; if Step 1 has none, a possible funding shortfall is noted.

Operating and non-operating expenses

4.6 Your Step 1 operating expenses fill all 12 months. Review them for seasonal changes. Every cost line carries a payment frequency — monthly, quarterly, semi-annual or annual (monthly by default) — so a once-a-year bill stays in the month you pay it.

4.7 Payroll taxes and benefits (rule 1.8) and the three sales-percentage expenses (rule 1.7) appear as calculated lines, never as inputs.

4.8 Depreciation (Step 1) and loan interest (Step 2) are carried in automatically.

4.9 You never enter income tax in Step 4; it is handled automatically for C-corporations only (rule 5.7).

4.10 All three cost groups — cost of goods sold, operating expenses and non-operating expenses — are summarized by month and for the year 1 in your forecast.

Steps 5 to 10 — the 3-Year Financial Plan (paid)

Step 5 — Trial Balance: eight year-end questions

Your Steps 1-4 figures are posted to a trial balance. Eight year-end questions then let you make the adjustments a bookkeeper would make. Answer Yes and enter the details on the same screen; No changes nothing.

5.1 Unpaid December bills. All December expenses are assumed paid in cash. Any not paid until January are moved to Accounts Payable, and the entry reverses automatically in January.

5.2 December sales not yet collected. All December sales are assumed collected at the time of sale. Any collected in January are moved to Accounts Receivable without changing sales, and reverse in January.

5.3 Expenses paid in advance. A December payment covering next year (for example, a six-month insurance premium) becomes a Prepaid Expense — a current asset — and is spread as an expense over the months you enter, starting next year.

5.4 Inventory check (review only). If inventory looks too high or low, revisit days on hand or unit costs in Step 4. Inventory ties up cash, so hold enough to meet demand with some safety stock, but no more.

5.5 Depreciation check (review only). You may switch assets that lose value quickly to a faster method in Step 1. Profits are lower, but assets are more fairly stated. Avoid changing methods in later years, which impairs year-to-year comparison.

5.6 Loan check (review only). Loan balances come from your Step 1 down payments and Step 2 terms; change them there.

5.7 Corporate income tax. Only a business taxed as a C-corporation (including an LLC that has elected to be taxed as one) pays income tax as a business; you state your legal form and how it is taxed when you set up your business. Tax is calculated on the full year's profit at the year end — 21% federal plus your state's corporate rate — and paid in April of the next year; a loss produces no tax. State franchise taxes are not included. For a sole proprietorship, partnership, LLC or S-corporation, the business is not taxed: its profit is taxed on your personal return, which this forecast does not include.

5.8 Anything else not yet recorded. Guided write-downs reduce gross sales to net sales: estimated product returns (for product businesses) and estimated uncollected invoices (for service businesses), each entered as one annual estimate, usually a percentage of sales from industry experience. You can also add notes for disclosure, such as pending litigation; notes do not change the figures.

Steps 6 to 8 — The three financial statements

6.1 The income statement, balance sheet and cash flow statement are produced automatically from the adjusted trial balance, month by month. Statements show revenue as positive and costs in parentheses. The balance sheet balances at every month end, and ending cash on the balance sheet agrees with the cash flow statement.

6.2 Current portion of loans. On the balance sheet, the part of each loan that is due within the next 12 months is automatically reported as a current liability ("Loans payable — due within 12 months"), never more than the loan balance; the rest is reported as a long-term liability. Current liabilities and long-term liabilities are each totalled, so you can check ratios such as the current ratio directly from the statement.

Step 9 — Out Year Assumptions: Years 2 and 3 with 15 adjustment boxes

9.1 Run-rate start. Years 2 and 3 start from December of the prior year, adjusted for your seasonal pattern and multiplied by 12, because December shows where the business is running at year end better than the Year 1 total does. One-time items are excluded (rule G.5). Your workbook shows Year 1 annualized from December beside Year 2, so the growth you see is measured like for like.

9.2 You answer, or accept the recommendation for, 15 adjustment boxes in five stages. Rate boxes open at a conservative default; event boxes (3, 7, 13, 14 and 15) open at zero, with a start month that defaults to July. A value outside the typical range needs a short note explaining why, which prints with your assumptions.

#	Box	Year 2 default	Year 2 range	Year 3 default	Year 3 range
1	Sell more — unit volume growth	10%	5–25%	15%	5–30%
2	Raise prices — average price increase	2%	1–5%	3%	2–6%
3	Add a new product or service (sales, start month, cost %)	$0	up to 20% of Y1 sales	$0	up to 30% of Y1 sales

#	Box	Year 2 default	Year 2 range	Year 3 default	Year 3 range
4	Supplier price increases — unit cost	3%	2–6%	3.5%	2–7%
5	Better buying power — gross margin points	1.0 pt	0–3 pts	1.5 pts	0–4 pts
6	Raises for your team	3.5%	2.5–5%	3.5%	2.5–5%
7	New hires (staff, start month, average salary)	0	0–2	0	0–3
8	Contractor rates	3%	2–5%	3%	2–5%
9	Rent	3%	0–5%	3%	0–5%
10	Marketing	10%	5–20%	10%	5–25%
11	Insurance	5%	3–8%	5%	3–8%
12	Everyday overhead (seven lines, below)	per line	0–8% if one rate	per line	0–8% if one rate
13	Buy equipment or vehicles (amount, month, life)	$0	—	$0	—
14	New loan or owner money	$0	—	$0	—
15	Take money out or set surplus cash aside	$0	—	$0	—

Box 12 — everyday overhead, recommended rate per line (Years 2 and 3): office supplies & general admin 3%; accounting & tax support 3%; licenses & permits 2%; technology / software subscriptions 8%; travel & entertainment 5%; legal fees 0% (held flat); HR support & recruiting 0% in Year 2 and 5% in Year 3. Or choose one rate for all seven lines.

9.3 Growth and price compound: 10% more volume at 2% higher prices is 12.2% more sales, not 12%.

9.4 For Years 2 and 3, cost of goods becomes a percentage of sales based on December. It rises with supplier price increases, falls when you raise prices, and falls further with any better buying power you expect.

9.5 Wages grow by the raise you choose; new hires start in the month you choose; both carry the payroll add-ons in rule 1.8.

9.6 The three sales-percentage costs keep the same percentage of sales as in Year 1. Every other expense not covered by a box is held at its December level, and the review page lists those lines so you can see them.

9.7 New equipment (Box 13) is depreciated by the same rules as Year 1, starting the month after purchase. A new loan (Box 14) is repaid in equal monthly payments starting the month after it is received. Owner money in (Box 14) and money taken out (Box 15) change cash and equity, not profit. Surplus cash set aside (Box 15) earns no modelled interest.

9.8 If cash would fall below zero in any month, the software warns you, names the first negative month and points you to Box 14. It never borrows on your behalf.

Step 10 — Final Outputs: your Excel Financial Plan Workbook and PDF Financial Plan

10.1 The workbook holds your locked statements for all three years with live formulas, including the month-by-month detail for all 36 months. To change a figure, change it in the software and download a new workbook — it costs nothing and keeps your plan under version control; the loaded tabs are protected, and changing figures in the workbook turns the control checks red. Each report is set up to print with File › Print.

10.2 A financial health check calculates 12 ratios for each year, each marked green (healthy), yellow (monitor) or red (concern): revenue growth, gross margin (product sales), operating margin, net profit

margin, current ratio, quick ratio, debt-to-equity, debt service coverage, asset turnover, accounts receivable days, inventory days and cash runway (months).

10.3 Break-even product sales = (fixed costs − other income) ÷ contribution margin ratio, where contribution margin is sales less cost of goods and the costs that move with sales, and fixed costs include fixed operating expenses, depreciation, interest and one-time start-up costs. Margin of safety is how far sales are above break-even, in dollars and as a percentage.

10.4 Cash danger points: the lowest month-end cash balance and its month, the first month cash would be negative, and the additional funding needed to keep cash at zero.

10.5 What-if analysis: downside, base and upside scenarios and a price-versus-volume sensitivity grid, driven by yellow cells that you change yourself. They never alter your loaded statements.

10.6 Benchmark comparison: your ratios set beside benchmark ranges — ranges you enter yourself, with guidance on where to find them (such as the ProSight Financial Association (formerly RMA) Annual Statement Studies by six-digit NAICS code, trade associations and SBA and Census data), or industry data from the optional benchmarking add-on — to test whether your assumptions are realistic.

10.7 Built-in quality control: automatic checks every time the file opens confirm the load is complete, agrees with your locked statements (to the cent, except a few rounding tests that allow $1), and that the balance sheet balances every month.

Questions and suggestions

If anything in this document is unclear, or you think a rule could work better for your kind of business, please write to Matt Evans at **matt@startupfinancialplan.ai**.