

Student activity 1 – Jones Manufacturing

Let's say you have forecast the following, and the business will be starting on January 1st next year:

- Sales will be £950 per month, but with one month credit given, so the cash is received one month after the sale is made.
- Expenses will be:
 - Rent - £200 per month - payable immediately
 - Raw materials - £100 per month - but with one month credit given
 - Wages - £250 per month - payable each month
 - Rates - £400 per quarter - payable every three months (first payment in January)
 - Electricity - £55 per quarter - first payment in March
 - Travelling - £75 per month - payable immediately
- The opening business bank balance will be £250

From this information prepare a cash flow statement for the first 6 months of the business.

	January	February	March	April	May	June	Totals
<u>Revenue (receipts)</u>							
Sales							
Total revenue (A)							
<u>Expenses (payments)</u>							
Rent							
Raw materials							
Wages							
Rates							
Electricity							
Travelling							
Total expenses (B)							
Net cash flow (A-B)							
Opening balance							
Closing balance							

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Opening balance							
Closing balance							

Cash flow forecasting

Solution to student activity 1 – Jones Manufacturing

	January	February	March	April	May	June	Totals
<u>Revenue (receipts)</u>							
Sales	--	950	950	950	950	950	4750
Total revenue (A)	--	950	950	950	950	950	4750
<u>Expenses (payments)</u>							
Rent	200	200	200	200	200	200	1200
Raw materials	0	100	100	100	100	100	500
Wages	250	250	250	250	250	250	1500
Rates	400	0	0	400	0	0	800
Electricity	0	0	55	0	0	55	110
Travelling	75	75	75	75	75	75	450
Total expenses (B)	925	625	680	1025	625	680	4560
Net cash flow (A-B)	-925	325	270	-75	325	270	190
Opening balance	250	-675	-350	-80	-155	170	
Closing balance	-675	-350	-80	-155	170	440	

We can see from this forecast that in the first few months of operation, the business is going to need some sort of short-term finance, but by May, they have a positive bank balance. Perhaps the most appropriate way to finance this would be through an overdraft arrangement, as they believe it will be short-term.

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Student activity 2 - Taktical.com

Frank Drake is a software engineer with a major multinational firm and a highly experienced programmer. He is also a keen racing sailor, and for many years in his spare time he has been developing a piece of software to help racing sailors plan their tactics for a race. The software enables you to input a wide range of variables, including the weather, the tide, the nature of the course, the boat characteristics and information about the competition. From this you can then develop a strategy for the race. After the race you can input your decisions and test them against what the software considered the optimum strategy. Frank has used it widely and found it very effective and he has also given copies of it to sailing friends for them to test. They have frequently commented that he should sell it, and he has finally decided to leave his job and set up a company to sell and market the product.

He has decided that the most effective way to distribute it would be through the internet and so he is planning to set up a sales and promotion web site called taktical.com. The software itself will be available through a CD. He has no plans to employ other programmers or designers yet.

He is planning to work from home initially and he estimates his initial set-up costs to be as follows:

- Software costs - £4,000
- E-commerce set-up and hosting - £1,250 initially in January then £200 per month afterwards
- Design costs - £950

He has allocated £3,600 for his marketing budget. An estimated £200 per month will be spent on the Google AdSense program to advertise the product on sailing related websites. The remaining £1,200 will purchase three £400 adverts in 'The Sailor' magazine: the first ad will appear (and be paid for) in January, then April and July.

He has investigated carefully to see what other similar products are available and believes he has found a niche in the market, though there are some other sailing simulation packages, but these are mostly game-style ones and not targeted at serious sailors.

He feels that this is a premium product targeted at a small niche and so he is able to set a relatively high price. He has discussed this with sailing friends and it is clear that price is not very important in their decision about whether to buy the product. He is planning therefore to charge £75 for each unit produced.

He expects the variable costs of each unit to be:

- £2.50 per CD produced
- £5.25 for each manual produced
- £2.25 postage/distribution cost

He will be starting to sell the product at the start of January and expects unit sales numbers for the first year to be:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
sales units	35	40	45	65	65	55	45	30	30	65	35	45

He would like to draw £2,000 per month for his living expenses, etc. He has £4,000 in the bank and is trying to estimate if he should approach the bank to try to raise funding, but needs some advice. Prepare a cashflow forecast for Taktical.com

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Solution to activity 2
Cashflow forecast for Taktical.com

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Totals
Revenue (receipts)													
Sales (£75 per unit)	2625	3000	3375	4875	4875	4125	3375	2250	2250	4875	2625	3375	41625
Total revenue (A)	2625	3000	3375	4875	4875	4125	3375	2250	2250	4875	2625	3375	41625
Expenses (payments)													
Software costs	4000	0	0	0	0	0	0	0	0	0	0	0	
E-commerce set-up and hosting	1250	200	200	200	200	200	200	200	200	200	200	200	4000
Design costs	950	0	0	0	0	0	0	0	0	0	0	0	3450
Marketing: AdSense	200	200	200	200	200	200	200	200	200	200	200	200	950
Marketing: The Sailor	400	0	0	400	0	0	400	0	0	0	0	0	2400
CD costs (£2.50 per unit)	87.5	100	112.5	162.5	162.5	137.5	112.5	75	75	162.5	87.5	112.5	1200
Manual costs (£5.25 per unit)	183.8	210	236.3	341.3	341.3	288.8	236.3	157.5	157.5	341.3	183.8	236.3	1388
Postage (£2.25 per unit)	78.75	90	101.3	146.3	146.3	123.8	101.3	67.5	67.5	146.3	78.75	101.3	2914
Owner's drawings	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	1249
Total expenses (B)	9150	2800	2850	3450	3050	2950	3250	2700	2700	3050	2750	2850	24000
Net cash flow (C) (C=A-B)	6525	200	525	1425	1825	1175	125	-450	-450	1825	-125	525	
Opening balance (D)	4000	2525	2325	1800	-375	1450	2625	2750	2300	1850	3675	3550	
Net cash flow	6525	200	525	1425	1825	1175	125	-450	-450	1825	-125	525	
Closing balance (D+C)	2525	2325	1800	-375	1450	2625	2750	2300	1850	3675	3550	4075	

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