

## Break – even Analysis

To work out my profit (or loss) for the first year of business, I have to compare two things – the expected level of sales taken from my cash flow forecast and the break – even point on the break – even analysis graphs.

My cash flow forecast shows that for the first year of business, my expected level of sales will be approximately £58,800. This is the approximate income for the sale of 29,400 drinks in the first year.

The expected level of sales is worked out using the number of drinks each person will buy, the number of customers per week, the price of these drinks (on the assumption that there is no special offers, and all drinks are full price), and the number of weeks in each month. The formula for each month looks like this: -

$$\begin{array}{r} \text{Customers} \\ \quad \quad \quad \times \\ \text{N}^{\circ} \text{ of Drinks} \\ \quad \quad \quad \times \\ \text{Price} \\ \quad \quad \quad \times \\ \text{Weeks} \\ \hline \text{Total income} \end{array}$$

To work out the number of drinks which I will sell in the first year, I used following formula:-

$$\begin{array}{r} \text{Average n}^{\circ} \text{ Customers} \\ \quad \quad \quad \times \\ \text{N}^{\circ} \text{ of Drinks} \\ \quad \quad \quad \times \\ \text{N}^{\circ} \text{ of Weeks} \\ \hline \quad \quad \quad \times \\ \hline \text{N}^{\circ} \text{ of days} \\ \hline \text{Total N}^{\circ} \text{ of Drinks} \end{array}$$

The break - even point of my graph, when the price is £2.00, shows that I should be making £72,000 and selling 36,000 drinks within my first of business. These figures are only rough estimates.

Having got figures from both my cash flow forecast and break – even graphs for both my total income and total number of drinks, I am able to say that my business, from these figures, will be a making a loss of (-£13,200). Also I do not have the required number of drinks to break – even in the first year.

The cash flow chart shows my bar's expenses and income over the first year of business. The first three months of the year (March to May), there will be no income as the 'builders' will be in, but a lot of spending will be done during this time. Throughout the months of November and December, my bar will make the most money (approximately £22,000) as it'll be Christmas and there will probably be offers on drinks to attract more customers. There will be three times the number of customers in December as there were in June. Over the first year of business, with all the financial information that I have been given, I predict from my cash flow, that I will make a loss of approximately £10,000. This would be because the bar itself will not be very well known, which will lead to fewer people coming to see what it offers, which will lead to less income coming into my bar. Also in the first year of business I will be spending money on things that I won't be spending money on in the second year of business, unless of course I refurbish the layout and all the fixtures, this means that there is an extra £20,000 to play around with. This will mean that my net cash flow will very rarely be in the red (negatives).

Cash flow forecasts are used to *estimate* a business' expenditure and income. For new business like this one, a cash flow forecast can help to answer questions like 'is the venue feasible?', 'how much capital is needed?', 'which are going to be the most dangerous months?' etc. However, for existing businesses, this is important as it can help recognize the amount and timing of any cash flow problems later on in the future of the business. The cash flow forecast can also help to assess new orders and projects. The cash flow can also help businesses to see where there could be money problems and cash shortages. They can then take the necessary actions to avoid this from happening. Many businesses can use a cash flow to assess the risks and benefits of new stock orders and possibly new ventures.

However, when a business completes a cash flow they have to take into consideration the usefulness and limitations of it. They have to remember that cash flows are based only on estimations, and that these are not just about the money, (that is both their income and expenditures.) They have to remember that it also takes into account the timings at which things will happen through out the year. They must also consider that the actual figures can vary from what they have estimated. This is especially important to new and inexperienced businesses. Completing a cash flow forecast spread sheet, does not however, ensure that the business will be financially stable and does not ensure that the business will be able to survive.

Companies tend to build their cash flows on spread sheets so that they can easily manipulate their cash flow. This then can be used to look at a companies best and worst case scenarios. This can help them to recognise the impacts of a single and multiple changes to the figures in the forecast. This in turn can be used to reduce risks in the business' finances. However, the company must be continually aware of the finance and market climate and understand that this is just as important as the number crunching.

## Sources of Finance

My business will have a loan of £20,000 to start up, in my bank balance. However, this loan will have to be paid back over a period of time. I will have to pay this back with interest, and over a set number of years.

This section of the assignment looks at the different interest rates on a loan of £20,000.

I will be looking a number of different banks, to look for the lowest interest rates.

This first repayment table was taken from [www.sainsburysbank.co.uk](http://www.sainsburysbank.co.uk).

Repayment Table			
Approximate monthly repayments for a loan of £20,000(with no credit care)			
Period (months)	APR %	Monthly repayments (£)	Total amount repayable (£)
12	6.2	1,738.96	20,867.52
24	6.2	895.62	21,494.88
36	6.2	614.85	22,134.60
48	6.2	474.72	22,786.56
60	6.2	390.84	23,450.40
72	6.2	335.09	24,126.48
84	6.2	295.41	24,814.44

These figures are a guide only

[Includes no repayments for the first three months](#)

This shows the monthly repayments for a loan of £20,000 from 1 year to 7 years. It also shows how much I will have to pay back in total, (£20,000 + interest). However, from looking at the website and using their loan calculator, it is difficult to say whether or not this type of loan is for a business or for personal use. The interest rates for Sainsbury's Bank are all the same at 6.2% APR. These figures are based on a loan without protection.

This repayment table is from [www.success4business.com](http://www.success4business.com). This is the Lloyds TSB business website.

Repayment Table			
Period (months)	APR %	Monthly repayments (£)	Total amount repayable (£)
12	14	1,788.57	21,462.84
24	12.5	940.59	22,574.16
36	12	658.94	23,721.84
48	11.7	518.87	24,905.70

60	11.6	435.43	26,125.80
72	11.5	380.29	27,380.88
84	11.4	341.33	28,671.72

This shows the monthly repayments for a loan of £20,000 from 1 year to 7 years. It also shows how much I will have to pay back in total, (£20,000 + interest). These figures are for a business loan without protection. The website is devoted to businesses and all their needs. The interest rates from Lloyds TSB vary from 14% APR to 11.4% APR.

This repayment table is taken from [www.bankofscotland.co.uk](http://www.bankofscotland.co.uk)

Repayment Table				
Period (months)	APR%	Monthly repayments (£)	Total amount repayable (£)	Arrangement Fee (£)
12	7.3	1,731.46	20,977.52	200.00
24	7.6	898.36	21,760.64	200.00
36	7.7	621.94	22,589.84	200.00
48	7.8	484.33	23,447.84	200.00
60	7.9	402.00	24,320.00	200.00
72	7.9	347.35	25,209.20	200.00
84	8	308.74	26,134.16	200.00

This shows the monthly repayments for a loan of £20,000 from 1 year to 7 years. It also shows how much I will have to pay back in total, (£20,000 + interest). Also the last column is for arrangement fees. This is because if I was to open a business account with the Bank of Scotland, I would have to pay £200 to arrange this account and loan. This loan is for a business, and all the figures come from a loan calculator from the website. The interest rates for the Bank of Scotland also vary from 8% APR to 7.3% APR. Again all these figures are based on a loan without protection.

This repayment table came from [www.barclayloanapplication.co.uk](http://www.barclayloanapplication.co.uk)

Repayment Table			
Period (months)	APR%	Monthly repayments (£)	Total amount repayable (£)
12	6.9	1,728.97	20,747.64
24	6.9	893.91	21,453.84
36	6.9	615.99	22,175.64
48	6.9	477.35	22,912.80
60	6.9	394.42	23,665.30
72	6.9	339.35	24,433.20
84	6.9	300.16	25,215.96

This shows the monthly repayments for a loan of £20,000 from 1 year to 7 years. It also shows how much I will have to pay back in total, (£20,000 + interest). This, again, is specifically aimed at businesses. The figures in the table for Barclay's are based on a loan without protection. The interest rates remain fixed on all the repayment periods at 6.9% APR.

There are other banks that offer loans. These include the co-operative bank, Alliance & Leicester. There are also finance companies, such as Freedom Finance, Norton Finance and Ocean Finance who offer loans as well. However, I have not researched these as I did not want to many figures to compare.

From the four banks that I have looked at and got figures for, I would probably choose to get my loan from Sainsbury's. This is because it is the smallest APR rate, which means that I will not pay back as much interest on my loan, as I would have done if I was to go else where. However, if I was to find out that this loan was not suitable for a business I would then approach Barclay's for my loan. This is because it has the next smallest APR rate attached to its loans. Another reason why I would go to these banks first is because, their rates are fixed no matter how long I decide to make my repayment periods.