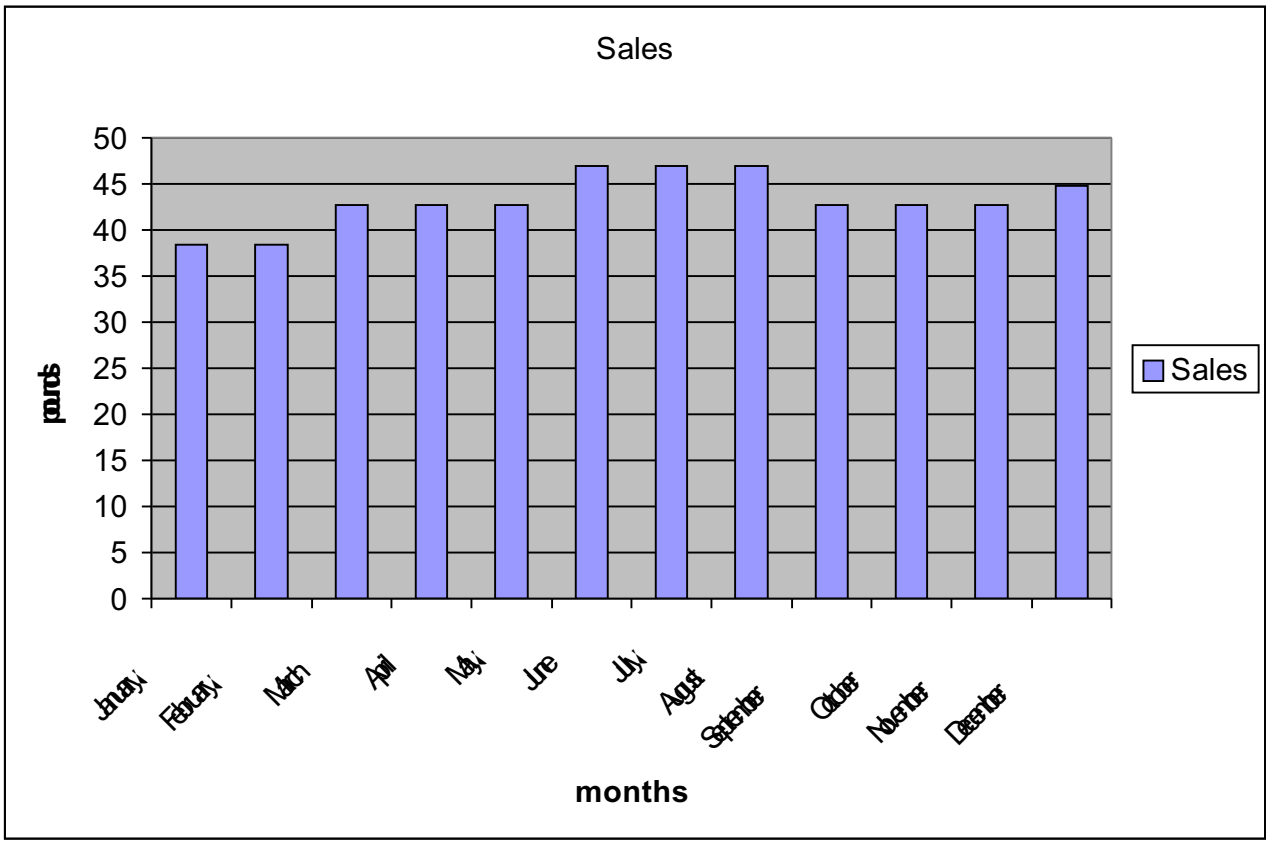
Financial Plan

Sales forecast for the year ended 31 December 2002

January	£38,417
❖ February	£38,417
❖ March	£42,686
❖ April	£42,686
❖ May	£42,686
❖ June	£469,55
❖ July	£46,955
❖ August	£46,955
❖ September	£42,686
❖ October	£42,686
❖ November	£42,686
❖ December	£44,820
	£518,635



Sales forecast limitations

Businesses are always trying to predict the future. This helps with planning and beating competitors. One simple way of predicting the future is to assume that it will be just like the past. Another way is forecast the sales figures using primary research. For the immediate future this may be very realistic. However such stability and predictability are rare. The values of data plotted over time, called time-series analysis, can vary because of seasonal influences and also because of genuinely random factors, which can never be predicted.

Cash Flow Forecast

Cash flow is a movement of cash into and out of a business.
A cash flow forecast sets out the anticipated cash inflows and cash outflows over the coming months. Each column shows money coming into and out of the business in that month. The forecast then shows the effect of each month's cash flows upon the firm's cash balance/total. It is like a mini bank statement. One essential rule when constructing a cash flow forecast is that money is shown when it is received or paid. The cash flow forecast will show if there is sufficient cash available each month. A negative cash flow in any time period will indicate that the company has insufficient funds. If the firm has an overdraft facility, this may be sufficient to cope with the period of negative cash flow. If not, preventative action must be taken quickly. Banks always request a cash flow forecast when considering an application for a loan from a new business, such as our restaurant. They do that in order to insure that the business: has enough cash to enable it to survive is able to pay the interest on the loan will be able to repay the loan is aware of the need for cash flow management.
Cash flow management is a vital ingredient in the success of any small business. For a new business, cash flow forecasting helps to answer key questions. Is the venture viable? How much capital is needed? Which are the most dangerous months?
Nevertheless, completing a cash flow forecast does not ensure survival. Consideration needs to be given to its usefulness and limitations. It must be remembered that cash flow forecasts are based on estimates. These estimates are not just amounts but also timings. The firm must be aware that actual figures can differ wildly from estimates – especially for a new, inexperienced firm. When preparing cash flow forecasts managers need to ask themselves "what if?" A huge mistake is to only look at one central forecast. Far better to look at best case and worst-case scenarios. Spreadsheet allow for easy manipulation of data. It is easy to see the impact of single and multiple changes to the forecast figures. This should help to reduce the risks. It does not guarantee results. Continual awareness of the economic and market climate is just as important as number crunching.

Notes to accounts

- Sales - these are the only receipts of the business.
- Purchases – purchases will be about 30% of the forecasted sales

About 35% will be cash purchases. This is because some of the products will be bought in small amounts and therefore it will be quite hard to get credit for these products. E.g. very expensive and old win
Other 65% will be credit purchases and will be allowed 2-month credit. Therefore there won't be any credit purchases payments during the first two months.

- Rent – the rent for the restaurant will be approximately £90,000 p.a. as I stated above in the Marketing plan. It will be paid each month and includes rent of two floors as well as business rates.
- Loan interest – this will be 10% and will be paid monthly.
- Wages and salaries – have been estimated earlier in the Human Resource Section of Marketing Plan.
- General expenses – these are very small expenses which hard to predict for the first time.
- Wastage of materials – this is the expense of the products, which might become out of date and won't be used in the future.
- Other expenses – these are expenses such as gas or electricity, which I predicted referring to the figures of other restaurants.
- Advertising – estimated in Marketing Plan section.
- Payments for property are split over three years and are paid on quarterly basis. Property is shown as a Fixed asset in the companies Balance Sheet and is depreciated on straight-line basis (%5)

Trading and Profit and Loss

A profit and loss account is an accounting statement showing a firm's sales revenue over a trading period and all the relevant costs generated to earn that revenue. By preparing P+L a/c it will be easier to obtain the loan from the bank or to get a credit for goods. This is because the creditors would want some proof that the business is capable of repaying loans. It also helps to plan ahead so the firm will know what to expect from the next year.

First Year of trading:

Forecasted Trading and profit and Loss a/c for the year ended 31 December 2004

Revenue		518,635
Opening stock	-	
Net purchases	155,591	
Stock available	155,591	
Less closing stock	(4,034)	
Cost of goods sold		(151,557)
Gross Profit		367,078
Less expenses:		
Lawyer's fees	400	
Wastage of material.	9,684	
Depreciation on property (5%)	17,500	
Registration	150	
Rent	90,000	
Appliances	7,650	
Waitress wages	39,420	
Accountant	4,164	
Chefs and Assistants	55,188	
Loan interest	15,000	
Electricity	5,040	
Advertising	19,575.3	
Casual labour	13,140	
Gas	300	
Heating	584	
Insurance	2,400	
General expenses	3,600	
Barmen	24,091.2	
Total expenses		(307,886.5)
Net Profit		**59,191 . 5**

Second Year of trading:

Forecasted Trading and profit and Loss a/c for the ended 31 December 2005

Revenue		570,503
Opening stock	-	
Net purchases	171,154	
Stock available	171,154	
Less closing stock	(4,437)	
Cost of goods sold		(166,717)
Gross Profit		403,786
Less expenses:		
Wastage of material.	9,684	
Depreciation on property (5%)	17,500	
Rent	90,000	
Waitress wages	39,420	
Accountant	4,164	
Chefs and Assistants	55,188	
Loan interest	15,000	
Electricity	5,040	
Advertising	3,800	
Casual labour	13,140	
Gas	300	
Heating	584	
Insurance	2,400	
General expenses	3,600	
Barmen	24,091.2	
Total expenses		(283,911.2)
Net Profit		**119, 874. 8**

Balance Sheet

Extracts of:

First Year of trading:

Forecasted Balance Sheet for the year ended 31 Dec 2004

Fixed assets			Capital	
Fixtures & fittings		350,000		
- depreciation		(17,500)	Net profit	59,191.5
		332,500		
			Long-term liabilities	
			Loan	150,000
Current Assets				
Stock	4,034		Current liabilities	
Bank	133,782.5		Creditors	17,064
			Property(outstanding)	233,334

Second year of trading:

Forecasted Balance Sheet for the year ended 31 Dec 2005

Fixed assets			Capital	
Fixtures & fittings		350,000		
- depreciation		(17,500)	Net profit	119,874.8
		332,500		
			Long-term liabilities	
			Loan	150,000
Current Assets				
Stock	4,437		Current liabilities	
Bank	168,828.3		Creditors	18,770
			Property (outstanding)	116,667

Ratio Analysis

The function of accounting is to provide information to stakeholders on how a business has performed over a given period. What is needed is comparative information. A way of judging a firm's financial performance in relation to its size and in relation to the performance of its competitors. The method used for this called ratio analysis.

Financial accounts, such as the P+L a/c and the balance sheet, are used for three main purposes:

- financial control
- planning
- accountability

Ratio analysis can assist in achieving these objectives. It can help different users of financial information to answer some of the questions they are interested in.

The main classifications of ratios are as follows:

- Profitability ratios

Measure the relationship between gross/net profit and sales, assets and capital employed. These are sometimes referred to as performance ratios.

- Activity ratios

These measure how efficiently an organisation uses its resources such as stocks or total assets.

- Liquidity ratios

These investigate the short term and long term financial stability of a firm by examining the relationship between assets and liabilities. These are sometimes called solvency ratios.

- Gearing

Examines the extent to which the business is dependent upon borrowed money. It is concerned with the long-term financial position of the company.

- Shareholder ratios

This group of ratios is concerned with analysing the returns for shareholders. These examine the relationship between the number of shares issued, dividend paid, value of the shares, and company profits.

1. R.O. C. E. (Return On Capital Employed) = net profit/capital employed

   Year 1 = 12.9%
   Year 2 = 29.6%

2. Net Profit Margin = Net profit/sales

Year 1 = 11.4%
Year 2 = 21%

These are two profitability ratios, which show how well the business has performed during the year. ROCE shows the percentage return from the capital employed within the business. ROCE increased, which suggests that the business performance is good and there is tendency towards stability.
Net Profit Margin informs as to how much profit is being made from sales. The higher the % the better the business has performed. NP Margin shows % increase, which again suggests positive future for the business if it is to be measured in terms of profits,

Liquidity

Current ratio: CA/CL

Year 1 = 0.5:1
Year 2 = 1.3:1

Liquidity is crucial for newly established business. Liquidity for the first year is quite low, however there is sufficient increase in the second year of trading. Results are close to norm and will improve when the third payment for property is repaid.

Gearing

Gearing = Long term liabilities/capital employed

Year 1 = 32.6%
Year 2 = 37%

This ratio focuses on the long-term financial stability of an organisation. It measures long term loans as a proportion of a firm's capital employed. It shows how reliant the firm is upon borrowed money.
Gearing for our restaurant is considerably low, which is good as it attacks lower risks.

Break Even Analysis

Break-even analysis compares a firm's revenue with its fixed and variable costs to identify the minimum sales level needed to make a profit. This can be shown in a graph known as a break-even chart.

Break-even point is the level of output at which total revenue equals total costs. At this level of output the business makes neither a profit nor a loss.

Break-even point = Fixed costs/Contribution per unit

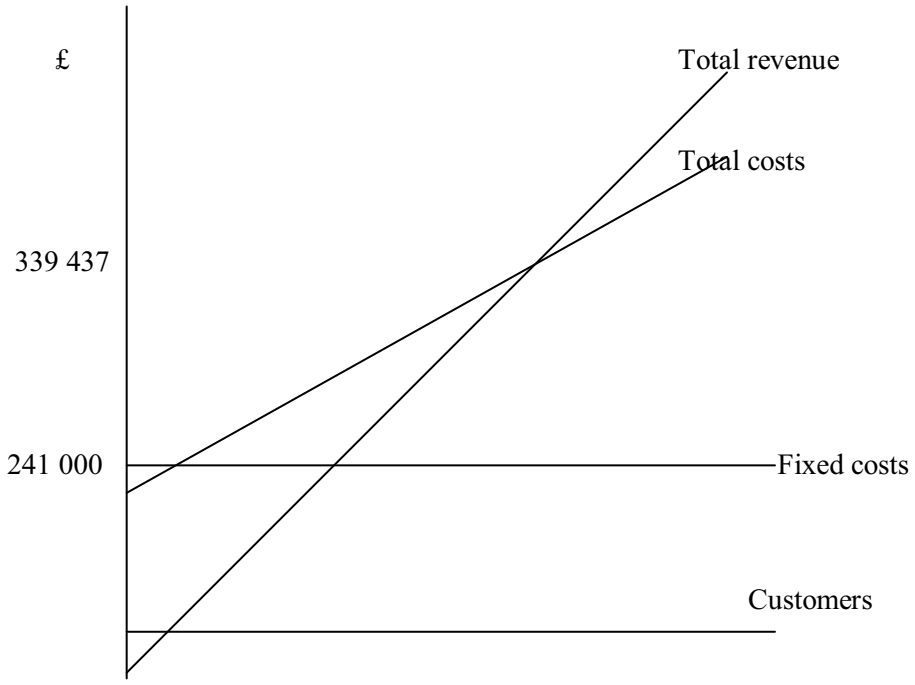
Contribution per unit = Selling price – Variable Costs

Fixed costs for the restaurant are as follows:

Rent	£ 90,000
Wages	£136,003
Servicing of finance	£ 15,000
	£ 241,003

Considering the fact that the expense of running this restaurant will be around £241,000 then the total contribution is £241,000 in order to break-even.
The restaurant is working at 71% gross margin and therefore the contribution per unit would be 71% of selling price.

Break-even = 241,000/71% of price = £339,437
This means that in order to break-even the restaurant must sell £339,437 in one year or £28,286 per month



Evaluation of break-even analysis

Break-even analysis is simple to conduct and understand. Also it is cheap and can be carried out quickly. It shows profit and loss at various levels of output, particularly when it is presented in the form of a chart. This may be of a particular value when a business is first established. Indeed it may be that financial institutions will require this sort of financial information before lending any money to someone aspiring to run a business.

Although it is a rudimentary technique, break-even analysis can cope with changing circumstances. We have seen that the technique can allow for changing revenues and costs and gives a valuable rule-of-thumb guide to potential profitability.

However, break-even does have some drawbacks. It pays little attention to the realities of the marketplace. A major flaw is that it assumes all output is sold. This may well be untrue and, if so, would result in an inaccurate break-even estimates. If a firm sells less than it produces it incurs costs without earning the corresponding revenue. This will substantially reduce profits. In times of recession, a firm may have difficulty in selling all that it produces.

Although break-even can cope with changes in prices and costs, in the real world such factors change regularly making it difficult to as a forecasting technique. Changes in tastes and fashions, exchange rates and technology are all examples of factors, which could invalidate break-even forecasts.

The model assumes that costs increase constantly and that firms do not benefit from economies of scale. Similarly, break-even analysis assumes the firm sells all its output at a single price. In reality firms frequently offer discount for bulk purchases. Finally, break-even analysis is only as good as the data on which it is based: poor quality data can result in inaccurate conclusions being drawn.