Name ______________________ Date ____________ Class __________

Chapter 4 Developing a Business Plan

SOFTWARE ACTIVITY (OPTIONAL)

Spreadsheet Application

Evaluating Cash Flow Needs for a New Business

Objective: Evaluate the cash flow needs for a new business in order to effectively create a strategic and well-formulated business plan.

Practice Situation

When the founders of Ben & Jerry's Homemade, Inc., began thinking about opening an ice cream store in 1978, they considered many issues. Equipment costs, location rental costs, employee salaries, product suppliers, and advertising are only a few of the items that entrepreneurs must keep in mind.

When Ben and Jerry created a business plan, they reviewed potential cash flow situations for the opening of their first store. Imagine you were hired to help Ben and Jerry forecast cash flow for the first six months of operation. Use the following assumptions for your calculations.

Assume that Ben and Jerry will contribute $4,000 each to the business. Suppose you researched the sales of a similar store in a nearby city and found that the store reported sales of $10,000 per month. To make a conservative estimate, you reduce the projections by one-half of those of an established store. You project gross sales to be $4,700 for June, $5,500 for July, $6,600 for August, $5,000 each month for September and October, and $4,500 for November.

Assume that the team has negotiated to buy used store equipment and freezers for $15,000. They will pay a down payment of $2,000 in June. Starting in July, a monthly payment of $250 will be due until the balance is paid in full. Operating the store will require three employees at an approximate cost of $3,000 per month.

Ben and Jerry plan to run a grand opening advertisement in the local Sunday newspaper for four consecutive weeks ($100/week), beginning June 1. During the next 5 months, they will mail coupons to advertise at a cost of $200 per month.

Ben and Jerry plan to rent a renovated gas station at $800 per month. The ingredients for the ice cream will cost $600 per month. Cones and toppings will be $200 per month, paper supplies will cost $150 per month. Projected bills will be $200 per month.

Businesses should plan for unforeseen happenings like equipment breakage, spoilage, or even natural disasters. Using a spreadsheet, create cash flow projections for June through November, then answer the questions on the following pages.

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Cash Inflows:	June	July	Aug	Sept	Oct	Nov
Contribution from Ben and Jerry						
Sales revenues						
Total Cash Inflows						
Cash Outflows:						
Equipment down payment						
Equipment payments						
Advertising						
Rent						
Salaries						
Ice Cream Ingredients						
Toppings/Cones						
Paper Supplies						
Utilities						
Total Cash Outflows						
Net Cash Flow						

Spreadsheet Directions

1. Start your spreadsheet software program and open problem **SA17.xls.**
2. Record the initial cash contribution from Ben and Jerry in June. Record the projected revenues for each month from sales. Insert the formula to calculate the total cash inflow for each month. *Note: Format all dollar amounts to Currency, decimal places 0, use 1000 separator (,).*
3. Record each of the expenses discussed. Insert the formula to calculate the total cash outflow for each month.
4. Input the formula to compute the Net Cash Flow for each month.
5. Complete the spreadsheet, then save your work to a new file labeled **SA17***.xls.** (Replace *** with your initials.)
6. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. What is the projected net cash flow for each month?

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Chapter 4

2. Which months resulted in a negative cash flow (cash inflows less than cash outflows)?

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Drawing Conclusions

1. What decisions might Ben and Jerry make about the operating expenses of the ice cream store to ensure a positive cash flow for every month? What suggestions would you make to the team to help lower cash outflows? Explain.

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2. List factors or situations that might impact cash flow for a business. Explain.

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