**Cash flow forecasting task**

**Scenario:**

The accounting business in which you are completing a week’s work experience is expanding the services it offers to its clients to include business consultancy. The Partner responsible for your time in the practice has asked for your help in preparing a cash flow forecast for Mr Smith, a client who is planning to open a new shop.

Mr Smith’s shop will sell electronic home entertainment equipment e.g. DVD players, TVs, stereo equipment etc. His business idea includes the offer of a home delivery service as a way of attracting customers to his business.

Mr Smith has approached his accountants for assistance in constructing and analysing a cash flow forecast for the new shop which he will include in his business plan that will be presented to his bankers to support his application for finance. He has provided the Practice with his best estimates that are included in Appendix A of this assignment.

**Task**

1. Prepare an excel spreadsheet to produce for Mr Smith a cash flow forecast for the twelve month period.
2. By analysing the cash flow forecast you prepared provide notes to accompany the cash flow forecast that explain to Mr Smith any points in the year when his business may experience cash flow problems and why they occur.
3. Provide Mr Smith with suggestions on the options he might have to resolve the forecast cash flow problems. Justify your suggestions.

**Appendix A: Data for Task**

You are required to produce a cash flow forecast for Mr Smith’s new business.

Use the following information to construct the forecast:

1. Mr Smith will put £11,000 into the business in January. He also receives a business loan payment of £8,000 in January.
2. Later that week Smith draws cheques to pay for the following:  
    Fixtures and fittings £22,000  
    2 x Delivery Vehicles £12,000 each
3. The business mortgage on the shop costs £2,800 per month.
4. Mr Smith will purchase stock costing £18,000 at the beginning of January. Stock purchases will then increase at the rate of 5% per month thereafter.
5. Sales are estimated to be at a rate of £30,000 for January and £40,000 in February increasing at a rate of 5% per month thereafter. 50% of the sales are on a credit basis with debtors settling their accounts in the month after they purchase the goods.
6. Salaries will cost £10,000 per month payable in the same month rising to £15,000 per month from September onwards.
7. Other expenses will average £400 per month.
8. Business rates will cost £620 a month payable in 10 monthly instalments beginning in March.
9. Mr Smith will take £1,500 a month in personal drawings rising to £2,000 a month from July onwards.
10. Utilities will be £150 per quarter. The first payment falls due in February.
11. Mr Smith anticipates in October he will require additional fixtures and fittings which cost the business a further £10,000.
12. Mr Smith plans to spend £240 a month on advertising with this figure rising to £450 a month from June onwards. This figure will be doubled in October, November and December in an effort to capture more of the Christmas shopper market.
13. With increased sales leading to a greater number of deliveries he expects a further outlay of £12,000 on vehicles in October.
14. Insurance will cost £700 a month. This rises to £900 when Mr Smith buys the delivery van in October.
15. Loan repayments will be £134 a month capital repayment and £60 a month interest.