Cash flow Analysis

Kaplan

MT499: Bachelors Capstone in Management-peregrine

Prof:  Angie Sokol

Heather Taylor

August 19, 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Pro Forma Profit and Loss | | | |
|  | Year 1 | Year 2 | Year 3 |
| Sales | $284,200 | $369,460 | $480,290 |
| Direct Cost of Sales | $142,100 | $184,730 | $240,145 |
| Other Production Expenses | $0 | $0 | $0 |
| Total Cost of Sales | $142,100 | $184,730 | $240,145 |
| Gross Margin | $142,100 | $184,730 | $240,145 |
| Gross Margin % | 50.00% | 50.00% | 50.00% |
| Expenses |  |  |  |
| Payroll | $44,115 | $48,527 | $53,379 |
| Sales and Marketing and Other Expenses | $15,448 | $15,523 | $15,834 |
| Depreciation | $0 | $0 | $0 |
| Telephone / Pagers/ Cell | $1,800 | $1,800 | $1,836 |
| Utilities | $4,500 | $4,800 | $4,896 |
| Payroll Taxes | $4,412 | $4,853 | $5,338 |
| Other | $0 | $0 | $0 |
| Total Operating Expenses | $70,275 | $75,502 | $81,283 |
| Profit Before Interest and Taxes | $71,826 | $109,228 | $158,862 |
| EBITDA | $71,826 | $109,228 | $158,862 |
| Interest Expense | $1,491 | $1,175 | $845 |
| Taxes Incurred | $21,100 | $32,416 | $47,405 |
| Net Profit | $49,234 | $75,637 | $110,612 |
| Net Profit/Sales | 17.32% | 20.47% | 23.03% |

Projected Balance Sheet

|  |  |  |  |
| --- | --- | --- | --- |
| Pro Forma Balance Sheet | | | |
|  | Year 1 | Year 2 | Year 3 |
| Assets |  |  |  |
| Current Assets |  |  |  |
| Cash | $62,715 | $135,771 | $243,806 |
| Inventory | $13,365 | $17,375 | $22,586 |
| Other Current Assets | $0 | $0 | $0 |
| Total Current Assets | $76,080 | $153,146 | $266,393 |
| Long-term Assets |  |  |  |
| Long-term Assets | $0 | $0 | $0 |
| Accumulated Depreciation | $0 | $0 | $0 |
| Total Long-term Assets | $0 | $0 | $0 |
| Total Assets | $76,080 | $153,146 | $266,393 |
|  |  |  |  |
| Liabilities and Capital | Year 1 | Year 2 | Year 3 |
| Current Liabilities |  |  |  |
| Accounts Payable | $15,762 | $20,491 | $26,426 |
| Current Borrowing | $0 | $0 | $0 |
| Other Current Liabilities | $2,000 | $2,000 | $2,000 |
| Subtotal Current Liabilities | $17,762 | $22,491 | $28,426 |
| Long-term Liabilities | $13,400 | $10,100 | $6,800 |
| Total Liabilities | $31,162 | $32,591 | $35,226 |
| Paid-in Capital | $5,100 | $5,100 | $5,100 |
| Retained Earnings | ($9,416) | $39,818 | $115,455 |
| Earnings | $49,234 | $75,637 | $110,612 |
| Total Capital | $44,918 | $120,555 | $231,167 |
| Total Liabilities and Capital | $76,080 | $153,146 | $266,393 |
| Net Worth | $44,918 | $120,555 | $231,167 |

Cash flow statement

|  |  |  |  |
| --- | --- | --- | --- |
| Projected Cash Flow | | | |
|  | Year 1 | Year 2 | Year 3 |
| Cash Received |  |  |  |
| Cash from Operations |  |  |  |
| Cash Sales | $284,200 | $369,460 | $480,290 |
| Subtotal Cash from Operations | $284,200 | $369,460 | $480,290 |
| Additional Cash Received |  |  |  |
| Sales Tax, VAT, HST/GST Received | $0 | $0 | $0 |
| New Current Borrowing | $0 | $0 | $0 |
| New Other Liabilities (interest-free) | $0 | $0 | $0 |
| New Long-term Liabilities | $0 | $0 | $0 |
| Sales of Other Current Assets | $0 | $0 | $0 |
| Sales of Long-term Assets | $0 | $0 | $0 |
| New Investment Received | $0 | $0 | $0 |
| Subtotal Cash Received | $284,200 | $369,460 | $480,290 |
| Expenditures | Year 1 | Year 2 | Year 3 |
| Expenditures from Operations |  |  |  |
| Cash Spending | $44,115 | $48,527 | $53,379 |
| Bill Payments | $174,454 | $244,577 | $315,576 |
| Subtotal Spent on Operations | $218,569 | $293,103 | $368,955 |
| Additional Cash Spent |  |  |  |
| Sales Tax, VAT, HST/GST Paid Out | $0 | $0 | $0 |
| Principal Repayment of Current Borrowing | $0 | $0 | $0 |
| Other Liabilities Principal Repayment | $0 | $0 | $0 |
| Long-term Liabilities Principal Repayment | $3,300 | $3,300 | $3,300 |
| Purchase Other Current Assets | $0 | $0 | $0 |
| Purchase Long-term Assets | $0 | $0 | $0 |
| Dividends | $0 | $0 | $0 |
| Subtotal Cash Spent | $221,869 | $296,403 | $372,255 |
| Net Cash Flow | $62,331 | $73,057 | $108,035 |
| Cash Balance | $62,715 | $135,771 | $243,806 |

Advantages of Cash flow analysis.

Cash flow analysis gives the organization a perspective of when the cash flows in and how the same cash is spent (Brealey, 2007). It offers a clear perspective of the budget, profit and loss statements general ledger or even the balance sheet. Cash flow management ensures effective control of expenditure to ascertain profitability of the business.

Cash flows assures maintenance of adequate cash reserves that is enough to meet the daily needs of the business (Brealey, 2007). For instance when an organization has enough cash to ensure the meeting of the daily expenses, such as telephone bills, and other sundry expenses. A good cash flow analysis will guarantee adequate cash to cover such expenditures. Secondly, it allows better management of credit facilities which adequately leads to proper meeting of daily expenses and can also result in decline in charges, interest penalties and fees. On the other hand it gives the business an opportunity to adjust with the prevailing economic situation to ensure it remains operational even in tough times.

References

Brealey. M (2007), *fundamentals of corporate finance,* 3rd Edition, Ross Westfield Jordan