

Build a Simple Forecast

Key Learning Outcomes

- The Castaway home screen
- Create a new forecast in Castaway
- Navigating the Forecast workspace
- Explore Castaway's element types
- Build a simple model
- Skill Builder

The Story

Smith has approached us with an interest in opening his own chocolate retail store. After meeting with Smith to talk about his idea, let's build a simple model to help him get a sense of the feasibility of the project. We are not trying to build a perfect model here, just a quick outline that sparks the conversation.

Smith has provided the following assumptions:

Business assumptions

- Proposed business start date: 1 July 2021
- Fitout period: 1 month
- Proposed store opening date: 1 August 2021
- Forecast Duration: 12 months starting from July 2021
- Income Tax rate: 30%
- Standard GST rate: 10% (using the accruals method)

Operating assumptions

- Chocolate Sales: \$10,000 in the first trading month, increasing by \$1,000 per month
- Chocolate COGS: \$5,000 per month
- Chocolate inventory: 7 days stock on hand
- Rent: \$4,000 per months starting July 2021 on 30 day terms
- Wages: \$2,500 in July 2021, then \$5,000 per month thereafter (no payroll rates required)
- Other overheads: \$500 in July 2021, then \$1,500 per month thereafter on 30 day terms
- Store Fitout & Equipment: \$100,000 in July 2021, depreciating at 15% declining balance

Funding assumptions

- Initial equity investment: \$50,000 in July 2021
- Loan from XYZ: \$50,000 received in July 2021 over 60 months at 8% interest

Foundation Skills

Let's go through the foundation skills you will need to build a quick forecast for Smith

Create a New Forecast

From the Home Screen, click  The Setup workspace appears

FORECAST SETUP

Forecast Details

Company Name
New Forecast 1

Report Subtitle

Description

Forecast Options

GST/VAT Method
Accruals
Rate
10.00 %

Income Tax Method
Taxable Income

Report Currency
AUD

Annual Profiles

Forecast Range

Number of Years
1

Forecast Start Date
Jul 2021

Financial Year Start Month
Jul

Jul 21

Jun 22

2021/22

12 months in Total

Report Appearance

Brand
Default

Report Style
Default

Forecast Logo
Image

No Image

Regular

Add Logo

Build Forecast

Forecast Details

Company Name	This will appear on the top line of your report headers
Report Subtitle	This will appear on the third line of your report headers
Description (optional)	Add some notes about the forecast you are creating

Forecast Range

Number of Years	Set the initial number of years in your forecast (up to 15) We suggest starting with 1 year and then extending as required
Forecast Start Date	Select the first month for which you want to add data to your forecast.
Financial Year Start Date	Set the first month of your financial year

Forecast Options

GST Method	Choose from Cash or Accruals
GST Rate	Enter your GST % This rate will be applied (initially) to every element you create Use 0% if the entity is exempt from GST
Income Tax Method	Select the applicable method from the following options: <ul style="list-style-type: none"> • Taxable Income • Exempt • Manual Entry • Taxable Income (Monthly Rate)
Report Currency	Select the report currency rate (should be 1.0000). Note that the first currency will be the file's base currency. Add more currencies for use in element data entry
Annual Profile	Create annual profiles for adding seasonality to elements quickly

Report Appearance

Report Appearance	<p>Brand: Select your brand. The brand can be edited in the Design panel</p> <p>Report Style: Choose a report style to be applied across all reports</p> <p>Forecast Logo: Add a second logo (e.g. for a client or an internal area)</p>
-------------------	---

Foundation Skills

To build this model, you will need to understand several key concepts around the Castaway Chart of Accounts, including structuring options, element types, inbuilt elements

The Chart of Accounts

The Chart of Accounts is the heart of any forecast. Knowing how to design a great Chart of Accounts is one of the most important skills for getting the most out of Castaway.

The Chart of Accounts is flexible so it can be tailored to the specific needs of your audience.

It is useful to keep 5 things in mind when designing the Chart of Accounts for your forecast:

1. The Chart of Accounts design is crucial to successful model building. Key decisions include creating the right structure, selecting the right elements and ensuring the element settings are correct
2. The Chart of Accounts in Castaway does not need to exactly match the Chart of Accounts in your day to day accounting package. Depending on the audience you are building for, you might need more detail in Castaway, or less
3. As you add elements, Castaway creates other inbuilt elements automatically, so you do not need to create them. It is important to be aware of these when you are designing your Castaway Chart of Accounts
4. Create the Chart of Accounts with the end in mind. Think about who will use the forecast, what they will want to see, how much detail you will show to each, and what questions will they want answered using the forecast
5. Use the smallest number of elements you can to get the job done (i.e. make it as simple as possible, but no simpler)

Structuring Options

The Chart of Accounts is made up of [Sections](#), [Subtotals](#), [Sub-subtotals](#) and [Elements](#). When you start a new forecast, the base structure includes a range of folders (we call them Sections) and also 5 Inbuilt sections. These inbuilt sections cannot be deleted, although they can be renamed.

You can add more Sales, Direct Costs and Overheads Sections. This enables departmental or segment reporting.

Elements

Elements are the building blocks of the Castaway Chart of Accounts and are therefore the building blocks of the forecast.

There are 16 different element types, covering most transactions that an organisation might experience. Each element type provides a defined selection of element properties, data modeling methods and reporting settings that are relevant to the specific element.

Element Types

Each Element type can only be created in certain Sections of the Chart of Accounts:

Profit & Loss Elements	
Sales S	Record income/revenue, accrued/prepaid income, associated cash flow, invoicing method and expected bad debts
Costs C	Record expenses associated cash flow and invoicing method. Expenses such as wages and costs of goods sold for inventory should be set up in the corresponding element types.
Wages W	Record employee-related costs such as wages, PAYG, superannuation and their associated cashflow terms
Inventory I	Record cost of goods or services sold, inventory purchases or work in progress
Balance Sheet Elements	
Fixed/Intangible Assets FA	Record asset purchases, depreciation/amortisation, asset sales and revaluations
Investments IV	Record investment details including investments made, associated investment income & treatment (i.e. reinvested or received to a specified bank account) and sales of investments
Loans L	Record loans received or made to external parties and their associated terms, including payment frequency, interest rates, deposits, holiday periods and residual amounts at the end of the loan
Trade Finance / Other Trade Finance TF	Record invoice or inventory finance arrangements, including facility limits, available facility calculation methods, drawdown assumptions, admin charges and interest rates applying to the facility
Other A/L AL	Model Balance Sheet accounts that are not already maintained via inbuilt elements or other elements types Record revenue, expenses, cash receipts and/or cash payments, with the balance appearing on the Balance Sheet. The Account Type controls the reporting position on the Funds Flow statement

Provisions PR	<p>Model movements in provisions that appear on the Profit & Loss and are accrued to a provision account on the Balance Sheet</p> <p>Account Type settings are available to deal with general provisions, general doubtful debts, general inventory write-downs, warranties, staff provisions and associated write-offs</p>
Equity E	<p>Use to adjust inbuilt retained earnings or to record capital and reserve balances/changes on the Balance Sheet</p> <p>Account types for Share Capital, Equity Reserve, Retained Earnings or General Equity can be applied to an equity element</p>
Other Elements	
Income Tax TX	Inbuilt element where Income Tax settings & payment options are set
Dividends	Inbuilt element where dividend settings & payment options are set
Trading Accounts BA	<p>Available in the Bank Accounts section</p> <p>This section also contains the default bank account. Set up interest rates and fund transfers between accounts within these elements</p>
Drivers D	<p>Available in the Drivers section.</p> <p>Use to record extra data that can be displayed on reports (via report formulas) and charts or via % of Drivers and Add Formula data entry methods to generate forecast data</p>
GST/VAT Payments Element	Inbuilt element to set options for calculating GST lodgements with the revenue authority and paying/receiving net GST balances

Inbuilt Elements

Castaway's calculation engine is built on a foundation of 3-way modelling principles. It is designed to understand the relationship between items in the Profit & Loss, Balance Sheet and Cashflow.

This means that when you create an element in, say, the Profit & Loss, Castaway automatically creates partner accounts on the Balance Sheet. Similarly, when you create a Balance Sheet element, Castaway automatically adds the relevant partner accounts in the Profit & Loss.

This table shows some of the most common partner account relationships:

Profit & Loss	Balance Sheet
S Sales	+ General Trade Debtors
C Costs	+ General Trade Creditors
W Wages	+ General PAYG, Superannuation and Payroll Tax Payable
I Inventory (COGS)	+ Inventory (asset)
TX Tax	+ Tax Provision, Tax Finalisation, Tax Payable
DV Dividend	+ Dividend Payable
+ Interest Income, Interest Expense	BA Bank Account
+ Depreciation, Amortisation, Profit on Sale of Assets	FA Fixed Asset
+ Investment Income, Profit on Sale of Investment	IV Investment
+ Loan Interest	L Loans
+ Other Expense, Other Revenue	AL Other A/L
+ Trade Finance Interest, Trade Finance Charges	TF Trade Finance
+ Provision Expense	PR Provision
+ N/A	E Equity