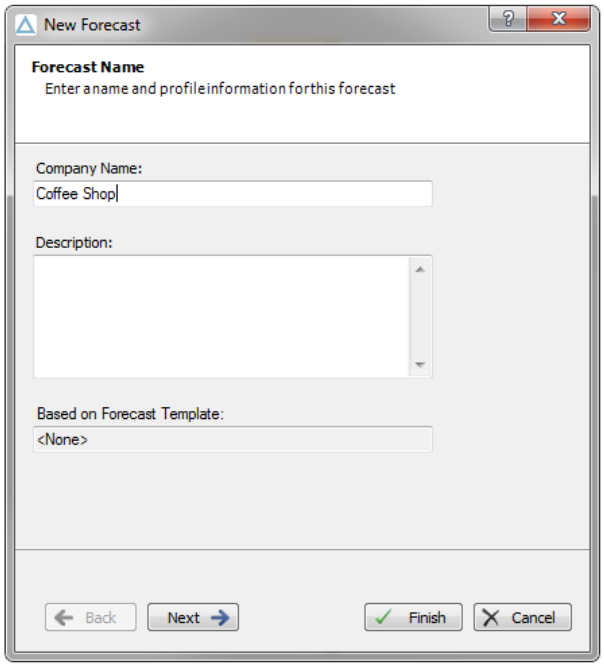
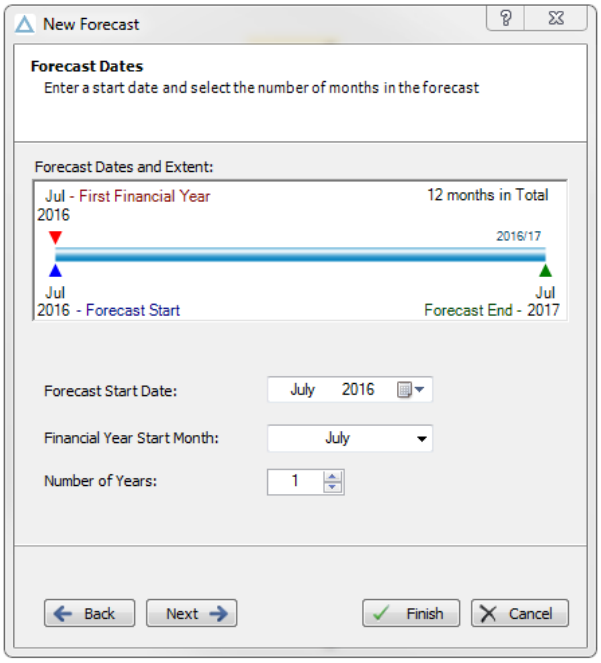
COFFEE SHOP – STEP BY STEP GUIDE PART 1

STEP 1. Start a new Castaway forecast

1. Open Castaway and click the *New Forecast* button
2. Enter 'Coffee Shop' as the **Company Name** then click *Next*
3. Set the **Forecast Start Date** as 1 July 2016 and the **Number of Years** to 1 then click *Finish*



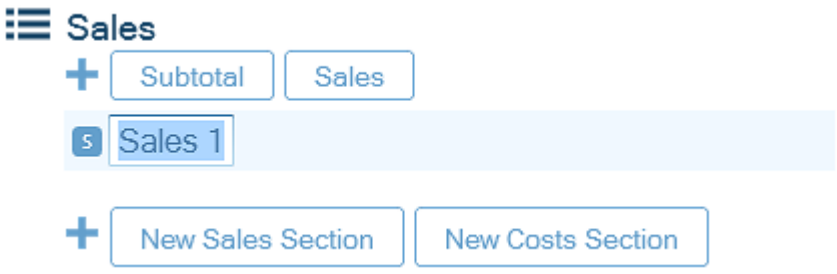


Castaway then launches the **Forecast Designer**.

STEP 2. Create a simple Chart of Accounts

Next, we'll use the Forecast Designer to create the Chart of Accounts for our Coffee Shop forecast. To add each Element:

1. click the Section heading you want to add the Element to
2. click the element type button to add the element
3. edit the Element Name



Given we're thinking as business owners here, we'll add the elements in the order they are needed as we design the business. Using the Forecast Designer, add the following elements to the Chart of Accounts:

SECTION	Element Type	Name
Equity	Equity	Share Capital
Non-Current Assets	Fixed Asset	Equipment
Overheads	Costs	Rent
Overheads	Wages	Staff Costs
Overheads	Costs	Other Operating Costs
Direct Costs	Inventory	Cost of Goods Sold
Sales	Sales	Coffee Sales

Note that at this point we could go to the Edit Element Properties screen to tailor the settings & properties of each element. However, this isn't necessary for such a simple forecast. Once the elements are set up, click *OK* to return to the main Castaway screen

STEP 3. Add some basic best-guess numbers

In this step, we'll add some basic numbers to each of the elements we have just created. In part 2, we'll add some dynamic modelling options to the forecast to enable quicker analysis of different scenarios.

Every Element has its own data entry screen, which we access by double-clicking the element name in the Chart of Accounts (the left-hand panel of the main Castaway screen). When you open an element for the first time, you may find the Element Properties box is displayed,

EQUITY: Double-click the *Share Capital* element in the Equity section to open the data entry screen. Enter $50,000 for Jul 16 in the Enter Equity Change row. Save and Close to return to the main Castaway screen

EQUIPMENT: Double-click the *Equipment* element under the Non-Current Assets section. Add $60,000 to the Enter Purchases line for Jul 16. Click to the Depreciation tab in the Element Properties dialogue box and enter 15% as the Depreciation Rate. Click Save and Close to return to the main Castaway screen

RENT: in the data entry screen for *Rent* (in the Overheads section), add $2,000 in the Enter Expense row for Sep 16 and Oct 16. Then, enter $4,000 for Nov 16 and click enter or tab to record the data. Next, right click on the $4,000 in Nov 16 and select Fill Right-Current Year. Save and Close

OTHER OPERATING COSTS: open the data entry screen for Other Operating Costs and enter $8,000 in the Enter Expense row for Jul 16 and Aug 16, then $4,500 for the other months. Enter 30 into the Days Credit line for every month from Oct 16 to Jun 17. Save and Close

STAFF COSTS: Enter $16,000 in the Enter Wages row of the Staff Costs element for each month. Enter 16.9% for each month for PAYG % and 9.5% for each month against Superannuation %.

Add 30 days credit to each month against the PAYG Days Credit row under the PAYG Payment heading and also against the Super Days Credit row below it. Save and Close

CASTAWAY
3-way business modelling

COFFEE SALES: Enter the numbers below % in the Enter Revenue row of the Coffee Sales element.

Jul16	Aug16	Sep16	Oct16	Nov16	Dec16	Jan17	Feb17	Mar17	Apr17	May17	Jun17
$0	$25k	$30k	$35k	$40k	$50k	$40k	$40k	$40k	$45k	$45k	$45k

COST OF GOODS SOLD: Until now, we've worked with the default properties for each element. For Cost of Goods Sold, we need to tailor the element properties to suit the facts we have been given. To do this:

1. open the Cost of Goods Sold element and click the *Cost of Goods Sold* button
2. from the COGS Method drop-down list, select the *% of Sales* option
3. click the 3-dot box to the right of the Element Selector title
4. tick the box next to Coffee Sales and click *OK*
5. enter *30%* in the Link % row on the data entry screen
6. click the Purchases button and select *Enter Inventory Days on Hand* as the Purchases Method
7. in the data entry screen, enter 14 for each month in the Days on Hand row. Notice that Castaway works out the Closing Inventory Balance for each month and then calculates the Total Purchases required to maintain that inventory level
8. click the Cashflow button and select *% Spread* from the Cashflow Method drop-down
9. click the 3-dot box to the right of Payments Spread and enter *50%* against 0 days (Current) and *50%* against 30d (1 mth)

Save and Close to return to the main Castaway screen. At this point, it would be a good idea to save the file you are working on.

Take a pause ... Interim Review

At this point, we've entered the basic data required for this simple forecast. Now is a good time to check your progress by reviewing the various reports available in Castaway. Note that while we have been entering basic operations numbers into the data entry screens, Castaway has been calculating a comprehensive set of financial reports. The reports are all up-to-date and you can be confident the numbers have accounting integrity because Castaway is based entirely around 3-way modelling principles.

Some questions to consider

Assuming that we are not prepared to add more elements to this forecast at this stage:

1. If you were presenting this business case to a bank or other financier, which elements would you want to perform what-if or sensitivity analysis on?
2. What are the arguments for and against using the % of Sales method to model Cost of Goods Sold?
3. Assuming that Coffee Sales and Cost of Goods Sold are the key variables for the financial viability of this business, what other approaches could we use to model the numbers for these elements?
4. What reports would you use to 'tell the story' of this proposed business?
5. What have we missed with this forecast?