

COFFEE SHOP EXERCISE – PART 1

The Scenario

You're considering an opportunity to start a new coffee shop in your local area. You've spotted a good location, sketched out some designs for the interior and put together your wish list for equipment.

Now it's time to develop the business case for this opportunity. You'd like to start with a simple Castaway forecast to give you a sense of whether this coffee shop could be financially viable.

The Objective

In Part 1 of this exercise, the focus is on building a simple forecast quickly. We'll create a simplified Chart of Accounts and add some high-level numbers. Together, we'll work through 3 steps:

1. start a new Castaway forecast
2. create a simple Chart of Accounts to suit your coffee shop opportunity
3. add some basic best-guess numbers to the forecast

In Part 2, we'll add some dynamic modelling options for better analysis of different growth scenarios

The Assumptions

The assumptions for building this forecast are:

- the property will be available from 1 April 2021, allowing you a one-month fit out period before opening the doors to your first customer on 1 May 2021
- the business will operate as a company and you are planning to contribute £50,000 of Equity in April
- you expect to invest £60,000 in fit out, equipment and other capital costs
- the landlord has offered lease terms of £4,000 per month, with the first 2 months rent free and the next 2 months at half rent. Rent is paid in the same month the expense is recognized in the accounts
- you plan to employ a full-time equivalent of four staff on an annual wage of £48,000 each
- the average PAYE rate will be 20% of wages. The effective rate of Employer NIC is 13.80%
- PAYE and NIC will be paid the month after the expenses are recognised
- other costs of running the business (excluding cost of sales), will be £8,000 per month for the first two months (starting in April 21) and £4,500 per month thereafter. After paying these costs cash up front (i.e. 0 days credit) for the first 3 months, suppliers will offer 30 day terms starting July
- your best estimate of revenue for this initial forecast is:

Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22
£0	£25k	£30k	£35k	£40k	£50k	£40k	£40k	£40k	£45k	£45k	£45k

- the average gross margin for coffee sales is 70% (i.e. Cost of Goods Sold are 30%)
- you plan on holding 14 days of inventory (coffee beans, cups, lids etc.). Inventory purchases are paid 50% in the month they are made (i.e. 0 days) and 50% in the next month (i.e. 30 days)