

## 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 the following settings:
  - a. Company Name: Coffee Shop
  - b. Forecast Start Date: 1 April 2021
  - c. Number of Years: 1
  - d. Financial Year Start Month: April
  - e. VAT rate: 20%
  - f. Report Base Currency: GBP with £ as the symbol

The screenshot displays the 'FORECAST SETUP' interface with the following sections:

- Forecast Details:** Company Name (Coffee Shop), Report Subtitle, and Description.
- Forecast Range:** Number of Years (1), Forecast Start Date (Apr 2021), and Financial Year Start Month (Apr). A timeline shows 'Apr 21' to 'Mar 22' for a '12 months in Total' period.
- Forecast Options:** GST/VAT Method (Accruals, Rate 10.00%), Income Tax Method (Taxable Income), Report Currency (AUD), and Annual Profiles.
- Report Appearance:** Brand (Default), Report Style (Default), Forecast Logo (Image), and a color scheme (Regular).

A 'Build Forecast' button is located at the bottom right of the form.

3. Once you're happy with your settings, click on **Build Forecast**

## 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 (the element type button is within the square icon)
3. edit the Element Name

### Profit and Loss

∨ Sales (1)



S Sales 1

+ Sales Section + Costs Section

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	Account Name
Equity	<b>E</b> Equity	Share Capital
Non-Current Assets	<b>FA</b> Fixed Asset	Equipment
Overheads	<b>C</b> Costs	Rent
Overheads	<b>W</b> Wages	Staff Costs
Overheads	<b>C</b> Costs	Other Operating Costs
Direct Costs	<b>I</b> Inventory	Cost of Goods Sold
Sales	<b>S</b> Sales	Coffee Sales

Note that at this point we could go to the Element Editor - Properties screen to tailor the settings & properties of each element. However, this isn't necessary for such a simple forecast.

## 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 clicking the element name in the Chart of Accounts (the left-hand panel in the Forecast Workspace).

**EQUITY:** Click the *Share Capital* element in the **Equity** section to open the data entry screen. Enter \$25,000 for Jul 21 in the Enter Equity Change row

**EQUIPMENT:** Click the *Equipment* element under the **Non-Current Assets** section. Add \$30,000 to the Enter Purchases line for Jul 21. Under Depreciation, enter 15% as the Depreciation Rate

**RENT:** In the data entry screen for *Rent* (in the Overheads section), add \$2,000 in the Enter Expense row for Sep 21 and Oct 21. Then, enter \$4,000 for Nov 21 and click enter or tab to record the data. Next, right click on the \$4,000 in Nov 21 and select Fill Right - Current Year

**OTHER OPERATING COSTS:** Click on Other Operating Costs and enter \$4,000 in the Enter Expense row for Jul 21 and Aug 21, then \$2,500 for the other months. Enter 30 into the **Days Credit** line for every month from Oct 21 to Jun 22

**STAFF COSTS** Enter \$8,000 in the Enter Wages row of the Staff Costs element for each month (i.e. 4 people at \$2,000 per month). Enter 28% as the average rate of PAYG, 9.50% as the monthly superannuation rate and 5.45% as the Payroll Tax rate

Add 30 days credit to each month against the PAYG, Superannuation and Payroll Tax days credit.

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

Jul21	Aug21	Sep21	Oct21	Nov21	Dec21	Jan22	Feb22	Mar22	Apr22	May22	Jun22
\$0	\$12k	\$15k	\$17k	\$20k	\$25k	\$20k	\$20k	\$20k	\$22k	\$22k	\$22k

**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 integrated 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?