

Cash Flow Frenzy

This winter you are going to sell homemade socks at your community Market. These are not just any socks, but real wool socks that are very durable and exceptionally warm.

To make a pair of socks takes one ball of yarn, which you purchase from a Scottish distributor for \$12.50 a ball. To ship the ball from Scotland it costs you \$2.50 per ball. When you get the yarn, you dye it, which costs \$0.99 per pair. Also, you stitch your logo – shown here - into the socks prior to market. These stitching costs 1.15 per pair.

At this point, your socks are ready for the market! To rent a booth at the market costs \$15 per day and provides you with 10 hours of selling time (6 AM – 4PM). The market operates on Saturdays only.

You borrow \$2500 from ACOA in Oct. to get your business started, and you must pay them back by the end of Feb. (you will make your first payment to them in Nov.)

Make the following assumptions:

- ★ You sell each pair of socks for \$25
- ★ You start paying yourself in November for the hours spent at the market. You pay yourself \$10 an hour.
- ★ You expect to sell 150 pairs in November, 275 in December, 200 in January, and 175 in February.
- ★ You register your business prior to your first month of operations for \$120
- ★ There are exactly four Saturdays in each month.
- ★ You order the supplies needed for each month one month in advance (you order the supplies needed for December in November, etc.)
- ★ You budget \$20 every month for knitting/office supplies (needles, etc.)
- ★ You will NOT be reimbursed for the ACOA loan.



3.1 Sock Business: Fancy Feet Cash Flow Forecast

	August	September	October	November	December	Total
Cash Receipts						
Total						
Cash Disbursements						
Total						
Net Cash: (Total Cash Receipts Minus Total Cash Disbursements)						
Monthly Surplus						
Monthly Deficit						

Lesson 4: Surreal Sweater Company

In this assignment we will look at how a cash flow forecast works and determine if Surreal Sweater Company is profitable. The following can be done in small groups, or individually.



You want to sell sweaters from a kiosk at the mall. You buy sweaters from a factory for \$20 each. To transport the sweaters from the factory it costs you \$3 per sweater. You decorate each sweater with beads and sew on your own label. To decorate the sweaters with beads costs \$2 per sweater and labels cost \$1 each.

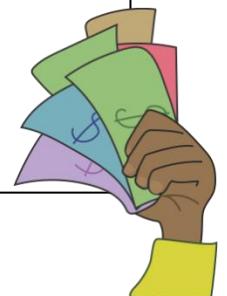
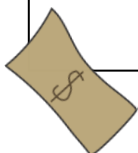
At this point, your sweaters are ready for sale. You search for various kiosks. The nicest one you can find that matches your product image costs \$2000 for a year, paid in full upfront. Your sister has agreed to loan you the money with no interest to cover this cost.

The mall will charge you \$50 each month to sell your sweaters. Today is November 30th, 2007 and you have been in business for three months. You must pay your sister back by the end of December.

Make the following assumptions:

- ★ You sell each sweater for \$40
- ★ You buy only as many sweaters as you sell
- ★ You have not taken any money for yourself for the past three months
- ★ In December, you will draw a \$200 salary from the business to purchase Christmas gifts
- ★ You sold 30 sweaters in September, 40 in October, and 50 in November, and you estimate you will sell 60 in December
- ★ You need to register your business in your first month of operations for \$120

Complete a Cash Flow Forecast for Surreal Sweaters using the blank Cash Flow on the next page. Is this company making money by month's end in December? Explain your answer.



4.1a Blank Cash Flow Forecast

	August	September	October	November	December	Total
Cash Receipts						
Total						
Cash Disbursements						
Total						
Net Cash: (Total Cash Receipts Minus Total Cash Disbursements)						
Monthly Surplus						
Monthly Deficit						

	September	October	November	December	Total
Cash Receipts					
Loan	\$2000				\$2000
Sales	\$1200	\$1600	\$2000	\$2400	\$7200
Total	\$3200	\$1600	\$2000	\$2400	\$9200
Cash Disbursements					
Business Reg.	\$120				\$120
Mall Fee	\$50	\$50	\$50	\$50	\$200
Kiosk Rental	\$2000				\$2000
Sweaters	\$600	\$800	\$1000	\$1200	\$3600
Sweater Shipment	\$90	\$120	\$150	\$180	\$540
Decorations	\$60	\$80	\$100	\$120	\$360
Labels	\$30	\$40	\$50	\$60	\$180
Loan Repayment		\$500	\$500	\$1000	\$2000
Owner's Drawings				\$200	\$200
Total	\$2950	\$1590	\$1850	\$2810	\$9200
Surplus	\$250	\$10	\$150		\$0
Deficit				\$410	