

# Forecast Your Future, Plan for Profits

*Case Study*

## Small Business Seminar Series

Session 2  
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*Presented by*  
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**Biz Gifts, Inc.**



**BIGG**success.com

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**Case Study**

Business Name: Biz Gifts, Inc.  
 Organization: S-Corp  
 Ownership: You own 100% of the outstanding shares

BizGifts is a gift business that caters to organizations recognizing employees, customers and other key constituents.

Sales:

<u>Month</u>	<u>\$</u>	
January	35,000	<i>Target sales growth:</i> 20% next year, 10% year after next
February	35,000	
March	45,000	<i>Profitability:</i> This is your first year in business. You anticipate closing the year with a profit of \$41,172 and paying dividends of \$14,822.
April	55,000	
May	65,000	
June	45,000	
July	35,000	
August	55,000	
September	45,000	
October	55,000	
November *	65,000	
December *	<u>75,000</u>	
<b>Total</b>	<b>610,000</b>	* estimated

Expected costs:

<u>Cost ( as a % of sales)</u>	<u>%</u>
Cost of Goods Sold	58%
Sales Commissions	8%
Payroll-related expenses on commissions	2%
Advertising	3%
<u>Cost (per month)</u>	<u>\$</u>
Payroll (excluding commissions)	7,000
Facility	3,000
Administrative	2,000
Utilities	1,000
Depreciation	500
Insurance	1,000
Miscellaneous	500

Customer payments: 5% at time of sale, 95% on credit  
 Credit payments: 55% paid within 30 days, remainder paid within 60 days  
 Vendor payments: Inventory and advertising purchases are Net 30.  
 All others paid in month incurred.

Inventory turnover: 6 times per year

Estimated taxes: 36% of profit distributed the last month of each quarter (federal)  
 1.5% corporate tax on profit paid in December (state)

**Biz Gifts, Inc.**

Projected Beginning Balance Sheet

<u>Assets</u>		
Cash *	15,000	* this balance is also the desired minimum
Accounts Receivable	36,500	
Inventory	<u>46,200</u>	
Total Current Assets		97,700
Fixtures & Equipment	60,000	
Accumulated Depreciation	<u>(6,000)</u>	
Total Fixed Assets		<u>54,000</u>
<b>TOTAL ASSETS</b>		<b><u>151,700</u></b>
 <u>Liabilities</u>		
Accounts Payable	23,100	
Accrued Expenses	<u>2,250</u>	
Total Current Liabilities		25,350
Long-Term Liabilities	<u>0</u>	
Total Liabilities		25,350
 <u>Equity</u>		
Capital Stock	100,000	
Retained Earnings	<u>26,350</u>	
Total Equity		<u>126,350</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b><u>151,700</u></b>

**Sustainable Growth Rate**

	<b>Y + 1</b>
Net Income	41,172
Beg Equity	126,350
ROE	32.6%
Earnings Retention Rate	64.0%
SGR	20.9%

Department Budgets

	Y + 1												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>Sales Budget</b>													
Sales	42,000	42,000	54,000	66,000	78,000	54,000	42,000	66,000	54,000	66,000	78,000	90,000	732,000
Cash Sales	2,100	2,100	2,700	3,300	3,900	2,700	2,100	3,300	2,700	3,300	3,900	4,500	
Credit Sales	39,900	39,900	51,300	62,700	74,100	51,300	39,900	62,700	51,300	62,700	74,100	85,500	
<b>Collections</b>	66,975	54,008	39,900	46,170	57,570	68,970	61,560	45,030	52,440	56,430	57,570	68,970	
<b>Purchases Budget</b>													
COGS	24,360	24,360	31,320	38,280	45,240	31,320	24,360	38,280	31,320	38,280	45,240	52,200	424,560
End Inventory	55,680	69,600	83,520	76,560	55,680	62,640	69,600	69,600	83,520	97,440	78,996	53,592	
Beg Inventory	48,720	55,680	69,600	83,520	76,560	55,680	62,640	69,600	69,600	83,520	97,440	78,996	
Purchases	31,320	38,280	45,240	31,320	24,360	38,280	31,320	38,280	45,240	52,200	26,796	26,796	
<b>Payroll Budget</b>													
Fixed Payroll	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
Sales Commissions	3,360	3,360	4,320	5,280	6,240	4,320	3,360	5,280	4,320	5,280	6,240	7,200	58,560
Fringe on Commissions	840	840	1,080	1,320	1,560	1,080	840	1,320	1,080	1,320	1,560	1,800	14,640
Total Payroll Exp	11,200	11,200	12,400	13,600	14,800	12,400	11,200	13,600	12,400	13,600	14,800	16,000	
<b>Advertising Budget</b>	1,260	1,260	1,620	1,980	2,340	1,620	1,260	1,980	1,620	1,980	2,340	2,700	21,960
<b>Other Oper Expenses</b>													
Facility	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Administrative	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Utilities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Depreciation	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Insurance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Miscellaneous	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Total Other Oper Exp	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	

Projected Income Statement

	Y + 1												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Sales	42,000	42,000	54,000	66,000	78,000	54,000	42,000	66,000	54,000	66,000	78,000	90,000	732,000
COGS	<u>24,360</u>	<u>24,360</u>	<u>31,320</u>	<u>38,280</u>	<u>45,240</u>	<u>31,320</u>	<u>24,360</u>	<u>38,280</u>	<u>31,320</u>	<u>38,280</u>	<u>45,240</u>	<u>52,200</u>	<u>424,560</u>
Gross Profit	17,640	17,640	22,680	27,720	32,760	22,680	17,640	27,720	22,680	27,720	32,760	37,800	307,440
Payroll	11,200	11,200	12,400	13,600	14,800	12,400	11,200	13,600	12,400	13,600	14,800	16,000	157,200
Advertising	1,260	1,260	1,620	1,980	2,340	1,620	1,260	1,980	1,620	1,980	2,340	2,700	21,960
Facility	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Administrative	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Utilities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Depreciation	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Insurance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Miscellaneous	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>	<u>6,000</u>
Total Oper Exp	20,460	20,460	22,020	23,580	25,140	22,020	20,460	23,580	22,020	23,580	25,140	26,700	275,160
Operating Profit	(2,820)	(2,820)	660	4,140	7,620	660	(2,820)	4,140	660	4,140	7,620	11,100	32,280
Interest Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pre-tax Profit	(2,820)	(2,820)	660	4,140	7,620	660	(2,820)	4,140	660	4,140	7,620	11,100	32,280
Income Tax Expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>102</u>	<u>10</u>	<u>0</u>	<u>20</u>	<u>10</u>	<u>62</u>	<u>114</u>	<u>167</u>	<u>484</u>
Net Profit	(2,820)	(2,820)	660	4,140	7,518	650	(2,820)	4,120	650	4,078	7,506	10,934	31,796

Cash Budget

	Jan	Feb	Mar	Apr	May	Jun	Y + 1 Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>Receipts</b>													
Cash Sales	2,100	2,100	2,700	3,300	3,900	2,700	2,100	3,300	2,700	3,300	3,900	4,500	36,600
A/R Collections	<u>66,975</u>	<u>54,008</u>	<u>39,900</u>	<u>46,170</u>	<u>57,570</u>	<u>68,970</u>	<u>61,560</u>	<u>45,030</u>	<u>52,440</u>	<u>56,430</u>	<u>57,570</u>	<u>68,970</u>	<u>675,593</u>
Total Receipts	69,075	56,108	42,600	49,470	61,470	71,670	63,660	48,330	55,140	59,730	61,470	73,470	712,193
<b>Disbursements</b>													
Purchases	24,360	31,320	38,280	45,240	31,320	24,360	38,280	31,320	38,280	45,240	52,200	26,796	426,996
Payroll	11,200	11,200	12,400	13,600	14,800	12,400	11,200	13,600	12,400	13,600	14,800	16,000	157,200
Advertising	2,250	1,260	1,260	1,620	1,980	2,340	1,620	1,260	1,980	1,620	1,980	2,340	21,510
Facility	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
Administrative	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Utilities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Insurance	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Miscellaneous	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Debt Service	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Taxes												484	484
Dividend			0			2,638			702			8,106	11,446
Total Disbursements	45,310	51,280	59,440	67,960	55,600	49,238	58,600	53,680	60,862	67,960	76,480	61,226	707,637
Net Cash Flow	23,765	4,828	(16,840)	(18,490)	5,870	22,432	5,060	(5,350)	(5,722)	(8,230)	(15,010)	12,244	4,556
Beginning Cash	<u>15,000</u>	<u>38,765</u>	<u>43,593</u>	<u>26,753</u>	<u>8,263</u>	<u>14,133</u>	<u>36,564</u>	<u>41,624</u>	<u>36,274</u>	<u>30,552</u>	<u>22,322</u>	<u>7,312</u>	
Ending Cash	38,765	43,593	26,753	8,263	14,133	36,564	41,624	36,274	30,552	22,322	7,312	19,556	
Cash Needed	0	0	0	6,738	868	0	0	0	0	0	7,688	0	
<b>L.O.C.</b>							<b>7,688</b>						

**Break-Even**

**Fixed Costs**

Fixed Payroll	84,000
Facility	36,000
Administrative	24,000
Utilities	12,000
Depreciation	6,000
Insurance	12,000
Miscellaneous	6,000
Interest Expense	<u>0</u>
Total Fixed	180,000

**Variable Costs**

COGS	58.0%
Sales Commissions	8.0%
Fringe on	
Commissions	2.0%
Advertising	3.0%
Total Variable	71.0%
Contribution Margin	29.0%

<b>BREAK-EVEN</b>	<b>620,690</b>
% of Projected Sales	84.8%

**Proof**

Sales	620,690
COGS	<u>360,000</u>
Gross Profit	260,690

Payroll	146,069
Advertising	18,621
Facility	36,000
Administrative	24,000
Utilities	12,000
Depreciation	6,000
Insurance	12,000
Miscellaneous	<u>6,000</u>
Total Operating Expenses	260,690

Operating Profit	0
Interest Expense	<u>0</u>
Pre-Tax Profit	<u>0</u>

Sales	732,000
Break-Even Sales	<u>620,690</u>
Sales above Break-Even	111,310
Contribution Margin	<u>29.0%</u>
Pre-Tax Profit	32,280

**Bottom Up (by Amount)**

<b>Desired Profit</b>	32,280
Fixed Costs	<u>180,000</u>
Total	212,280
Contribution Margin	<u>29.0%</u>
Sales	732,000

**Bottom Up (by Percent)**

Fixed Costs	180,000
Variable Costs	71.0%
<b>Desired Profit Margin</b>	<u>4.4%</u>
Total Costs + Profit	75.4%
Sales	732,000