## Case study - profit and cash flow

*Many businesses have seasonal demand patterns. This question enables you to test your knowledge of profit and cash flow, and to practise working by examining a case study, extracting data, and making appropriate calculations. Do not try to be quick, just careful!*

Fiona Farmer, wants to grow wheat on 40 hectares of usable land she intends to lease. She expects a yield of 8.5 tons/hectare and the predicted price is $125 cash per ton from the buyer. She grows one crop per year, which she sells in February. In April she buys and plants seeds, 4 tons at a price of $250 per ton. She buys fertiliser in November and April; 15 tons each time at $80 per ton. She pays herself $450 per month and also pays wages for extra help of $500 four times each year for assistance in seeding, fertilising and reaping; in June, August, January and March. She pays rent of $1,500 in January, April, July and October, and taxes of $1,700 in May. All transactions are in cash.

At the start of this growing season she had $3,000 in the bank.

As a class design a Cash Flow Forecast spreadsheet to calculate a year from 1 April this year to 31 March next year. Then create the spreadsheet and enter the details above into it.

When you have finished, answer the questions below?

#### Questions

1. Should she lease the land?
2. Will she need to arrange an overdraft with her bank?
3. If she does need an overdraft, when will she need it and how much should she ask for?