## Forecast versus Actual

## Case study

**Drenched Ltd** produces and sells drench to the Retail Trade. The firm sells packs of 10 drenches, at a cost of $100 per pack. The cost to the company, per pack, are summarised below:

Labour $10 per pack

Materials $15 per pack

Overheads and expenses $25 per pack

All costs are paid in cash as they are incurred. Sales may be made for cash or on 4 weeks’ credit.

At the start of the period the firm has $100,000 in the bank, and has built up a profit of $250,000.

You are to create a Cash Flow Forecast for the next six months based on these production/sales figures:

**A major advertising campaign is due to begin during month 3**

|  |  |  |
| --- | --- | --- |
| Month | Production | Expected Sales |
| 1 | 10,000 packs | 6,000 packs |
| 2 | 10,000 packs | 6,000 packs |
| 3 | 10,000 packs | 6,000 packs |
| 4 | 15,000 packs | 10,000 packs |
| 5 | 15,000 packs | 10,000 packs |
| 6 | 10,000 packs | 10,000 packs |

As a class design your Cash Flow Forecast spreadsheet – this time you will need to allow an extra two (at this stage blank) columns for each month, so you can put in the actual figures at the end of each month once you know them, and the second column is for the variance. What is a variance?

Create your spreadsheet using the information above.

**Complete the following:**

#### Calculate the profit made on the sale of a pack of drench.

Examine the actions described below and show the effect of them on Drenched’s cash flow forecast – what column will you use?

**In month 1** the firm makes 10,000 packs, but sells 5,000 packs for cash. Show the impact of these transactions.

**In month 2**, the firm makes another 15,000 packs, but sells 7,000 packs on one month’s free credit.

**In month 3**, the firm makes another 15,000 packs, but sells 10,000 packs for cash and 5,000 on one month’s free credit.

**In month 4**, the firm makes another 10,000 packs, but manages to sell only 7,000 packs, on one month’s free credit.

**In month 5**, the firm makes another 15,000 packs, but sells 5,000 packs for cash and 10,000 on one month’s free credit.

**In month 6**, the firm makes only 5,000 packs, but sells 7,000 packs on one month’s free credit, and 13,000 packs for cash.

* What conclusions can you draw from the completed spreadsheet?
* What recommendations can you make?
* How useful are the two new columns? In what way are they useful?

