

2. Expansion for CJ's Coffee Shop?

Chris Jones and his wife Julie, both aged 58, had just closed up their coffee shop for their Christmas holiday. This was the end of their second year of trading and Chris enjoyed every aspect of running the coffee shop, which was a complete contrast to his thirty-year career in the motor industry. Having been left the premises by an aunt, Chris had put the majority of his redundancy money into refurbishing the building into a smart venue in the middle of the small town where they lived. As a result, their overheads were minimal. They ran the shop entirely by themselves and the combination of Julie's excellent baking, and Chris's enthusiasm when serving the customers, had resulted in a net profit of £20000 in the last twelve months. They had built up an excellent reputation in a very short time and lots of customers came from nearby towns and villages to enjoy the food and hospitality.

As they sat down for dinner that evening, Chris announced to Julie's great surprise that he felt that they should use the profit they had made to open up another coffee shop in a town some 15 miles away. He had already decided upon a name – 'CJ's II'. Julie knew that her financial planning had been an important factor in the survival of their current coffee shop and she had some concerns about opening a second one. They had made considerable financial sacrifices in the last two years and had kept their drawings to a minimum, something she was not intending to do next year. Over the next few days she drew up a cash flow forecast for the new coffee shop (CJ's II) that Chris was proposing and suggested that he sit down and examine it very carefully.

**Table 1: Cash flow forecast for CJ's proposed second coffee shop (CJ's II):
Jan - June 2014.**

Overdraft Limit: £2500

	£s	£s	£s	£s	£s	£s
	January	February	March	April	May	June
Sales Receipts	2500	2000	2000	2500	3000	4500
Food Purchases	850	660	660	850	1000	1500
Cooking Equipment Purchases	6100					
Furniture/Fittings Purchases	6000					
Staff Wages	2500	2500	2500	2500	2500	2500
Heating and Lighting	40	40	40	35	25	25
Rent	700	700	700	700	700	700
Telephone	20	20	20	20	20	20
Insurance	250	0	0	250	0	0
Advertising	360	0	0	360	0	0
Business Rates	100	100	100	100	100	100
Drawings	0	0	0	0	0	0
Total Payments	16920	4020	4020	4815	4345	4845
Net Cash Flow	(i)	(2020)	(2020)	(2315)	(1345)	(345)
Opening Balance	20000	5580	3560	1540	(775)	(2120)
Closing Balance	5580	3560	1540	(775)	(2120)	(ii)

- (a) Calculate the value of:
- (i) Net Cash Flow for January 2014; [1]
 - (ii) Closing Balance for June 2014. [1]
- (b) Explain **two** advantages to CJ's Coffee Shops of preparing a cash flow forecast. [6]
- (c) Assess Chris's proposal to open up a second coffee shop in order to expand the business. [8]