

Papa geo budgeting project essay



**ASSIGN
BUSTER**

Brain Enterprises Budget Proposal For Papa Geo's Restaurant BUSN-278

SUMB11 Sec B Professor Marie Main DeVry University

Section	Title	Subsection	Title	Page Number
1. 0	Executive summary			3
2. 0	Sales Forecast			3
2. 1	Sales Forecast			3
2. 2	Methods and Assumptions			4
3. 0	Capital Expenditure Budget			4
4. 0	Investment Analysis			6
4. 1	Cash flows			7
4. 2	NPV Analysis			8
4. 3	Rate of Return Calculations			8
4. 4	Payback Period Calculations			9
. 0	Pro Forma Financial Statements			9
5. 1	Pro Forma Income Statement			9
5. 2	Pro-Forma Cash flow Statement			10
5. 3	Pro-Forma Balance Sheets			11
6. 0	Works Cited			12

*** 1. 0 Executive Summary ** Papa Geo's Restaurant targets middle income families in Orlando Florida. The restaurant will be buffet style where for a low cost price people can eat from the serving bars that are built. The main food served in this restaurant is Italian food composed of pizza, pasta, soup, desserts, salad bar and a self-serve soda bar.

There will be a gaming area which will create another source of revenue for the restaurant. Because the food is reasonable priced in the area where it is being built families will hopefully deter from the normal fast food restaurants. Although they are not in direct competition with the same line of food, they still hold a great weight in choices the customer might prefer that Papa Geo's does not cater to. * The Capital Expenditure Budget presented is an estimated cost of what will be initially needed for the restaurant to run properly.

It is separated by sections so that finding items that are necessary for specific tasks are easier to locate and update as the business progresses.

The budget will allow for the minimum items necessary to be ordered but it is not by any means final as a change in menu or additional items necessary will be checked over weekly to make certain all necessities have been met. *

** 2. 0 Sales Forecast ** The table below will show the expected sales forecast for the next five years where the population surrounding the restaurant is currently around 10, 000 families and will be growing at an average rate of 6% per year. 2. 1 Sales Forecast ** The fiscal year for the company is from January to December, the restaurant will hope to open by October 1st, 2011. During those 3 months at the end of the fiscal year will be the " Grand Opening" for Papa Geo's. With any new opening customers will first have to establish the place and then the popularity of the restaurant will spread and bring in more customers. We are first assuming that a quarter of the population (2, 500 of 10, 000) will first come in to dine at Papa Geo's at least twice a month.

At the beginning of 2012 we will start to see an increase in customers. By the end of the year we are hoping that from the original 10, 000 families that 75% will end up eating at different rates but regularly at Papa Geo's. * The first quarter will continue to come in at least twice a month and then the second quarter will come in at least once every 6 months and the third quarter will come in at least once every 4 months. We are estimating that at least 1, 000 families will come in once every once throughout the year as a " special eat out dinner".

In the third year we are projecting that at least 80% of the population will be dining at Papa Geo's on an average of 11. 5 times a year from then on. ** When times are hard because the economy takes a down turn families will

often cook at home so as not to waste money on outside food. However statistics show that once the economy improves the number of families that go out to eat will increase. ** Year | * 2011 | * 2012 | * 2013 | * 2014 | * 2015 | * Sales | * 420, 000 | * 2, 058, 000 | * 2, 894, 458 | * 3, 068, 016 | * 3, 252, 200 | *

2. 2 Methods and Assumptions *

As there was no past data to rely on a conservative estimate was made to project the sales that would occur. These figures are not definite and will likely change over time as figures are being actualized every year. These assumptions were based on an article written by the National Restaurant Association where they stated that as long as the economy keeps doing well the estimated sales in restaurants will exceed \$604 Billion in 2011 alone (National Restaurant Association, 2011). From the projected forecast of sales for 2011 we are assuming that the prosperity in growth will continue each year.

However with any economy nothing is for sure and sales should be monitored and increasing prices to keep up with costs will most likely need to be reviewed bi-annually. ** 3. 0 Capital Expenditure Budget ** The expected prices from all Capital Expenditures listed were found online at a number of websites to look for the most cost efficient prices: * <http://www.acemart.com/> * <http://www.webstaurantstore.com/1045/mops-and-mopping-accessories.html> * <http://www.centralrestaurant.com/> * <http://www.katom.com/> * <http://www.instawares.com/> * <http://www.bmigaming.com/> * http://www.bradydist.com/brady_distributing_arcade_games.php ** * The resulted findings for all

items that are necessary to start up the restaurant total to approximately

<https://assignbuster.com/papa-geo-budgeting-project-essay/>

\$370, 828. 48. I would add as a precaution another estimated \$10, 000 for items that may have been overlooked in the projection of this budget. The major items which are the most costly are the ovens, fridges, ice cream machine and gaming devices. The ovens and fridges are necessary items but if cutting back on costs is essential it would be wise to decrease the number of games wanting to be bought since they make the biggest impact on the budget.

I would not cut out the ice cream machine because it is a highly favorable dessert among customers, especially children. It would be a wise investment to keep as it would satisfy customers. Most items were doubled so that incase one object broke there was a spare that is usable and within reach. The Managers' are going to be kept at a salaried rate with possible increases yearly upon A formal yearly review. The Manager's salary will be at \$35, 000 and the Assistant Manager's salary will be \$25, 000.

The hourly employees are the two cooks, earning \$12/hr, cashier, earning \$8/hr, and the table busers, earning \$10/hr to clean up after the customers and the restaurant itself. * 4. 0 Investment Analysis * The NPV was done at the end of the year basis where everything was totaled for the entire year. The loan taken from the bank was rounded up to the nearest hundred and then another \$10, 000 was put aside for materials that might have been left out of the assessment. The NPV shows a high return from the start and the owner of Papa Geo's has no need to use personal funds.

The discount rate was set at a default 10% rate for an assessment of the business. The IRR shows that even with the loan Papa Geo's had a high

return rate of 218.745% which makes it an acceptable risk. The ARR shows that there is a high ratio for earnings that the company makes off of every dollar. From research done Income taxes are at 6% for restaurants in Florida (Florida Department of Revenue, 2007). The advertising expense was started at 8% of cash sales and then increased to 10% to see if it increased revenue due to the higher expense of advertising.

4.1 Cashflows * At the beginning wages were not counted for start up costs because the restaurant was not in service yet so wages were not paid out. As seen above things that were considered in the capital budget were expensed at the end of every year as wages and such occurred monthly. The first initial year accounts only for 3 months as the restaurant is scheduled to be opened October 1, 2011.

4.2 NPV Analysis * * * The NPV starts with the loan taken out for the start up of the restaurant and with the yearly inflows from cash sales and the vending machines, a high inflow was achieved.

The 10% discount was chosen as a default percentage for being the minimum value that a return on capital should be.

4.3 Rate of Return * * The IRR for the project is 218.745% which makes this project highly desirable as the cash inflow due to the restaurants affordable price and populated area. The ARR shows the increasing dollar income per year.

4.4 Payback Period * * * The payback period occurs in less than a year, it shows an investment in a restaurant although highly expensive is also lucrative with a high profitability rate.

* * 5.0 Pro-Forma Financial Statements * This end of year Income Statement will help manager's measure performance of the company against any plans for the future to improve performance.

5.1 Pro-Forma Income Statement * * The sales were calculated based on a conservative method of

the number of customers that would eat at Geo's of about 80% of the area population. The exception to this is the first year as the restaurant will have been only open 3 months and new customers would be coming in at a slower pace. The COGS was based on the number of plates served in an average family size of 4 times the cost of each plate which is \$4.0. Advertising was based on 8% of sales the first year then increased to 10% the rest of the four years to see if an increase in advertisement would bring in more customers. (Stirtz, 2005) Wages were previously explained in Capital Budgeting section 3.0. * 5.2 Pro-Forma Cash Flow Statement * * (The Cash Flow Statement, 2011) * * The Cash Flow Statement shows whether a company can keep up with its expenses. Having a Negative balance on the cash flow statement shows there is a problem with financing capabilities in the company.

As for Papa Geo's, all years have a positive cash flow so the company is in good standing for being able to cover its expenses and even has the ability to consider expanding with such high positive cash flow. 5.3 Pro-Forma Balance Sheets The figures were taken from the Pro-forma Cash Flow statement. The cash consists of sales made to customers and from vending machines. The material expense was considered an asset because before it became an expense it was inventory on hand before it was use throughout the year to feed the customers. Capital assets were all fixtures bought and furniture.

Liabilities are self explanatory. Stock holder equity was not considered because there will be one owner for Papa Geo's, but it can be revised if a partner decides to get involved. * 6.06.0 Works Cited Works Cited Florida Department of Revenue. (2007, October 15). Restaurant and Bars Standard <https://assignbuster.com/papa-geo-budgeting-project-essay/>

Industry Guide. Retrieved October 1, 2011, from http://dor.myflorida.com/dor/taxes/sigs/restaurant_bar_external.pdf National Restaurant Association. (2011, February 1). Restaurant Industry Sales Turn Positive in 2011 after Three Tough Years.

Retrieved September 7, 2011, from 2011 Restaurant Industry Forecast: http://www.restaurant.org/pressroom/social-media-releases/release/?page=social_media_2011_forecast.cfm Stirtz, K. (2005, July 1). All Business. Retrieved October 1, 2011, from How Much Should You Spend on Advertising? : <http://www.allbusiness.com/marketing-advertising/strategic-marketing/3875113-1.html> The Cash Flow Statement. (2011). Retrieved October 5, 2011, from How to Open a Restaurant Guide: <http://startingarestaurantguide.com/accounting/64-the-cash-flow-statement>