

Homework assignment: Financing capital expenditures in the proforma cashflow model

Try to complete the following steps:

1. If you haven't done it already, feed the Hershey data in the cashflow proforma model and do a forecast. The results should look like the Hershey account files handed out in the fifth session.
2. Go to the forecast value page in the **Make/View/Edit Forecast** section and look at the forecast entries for capital spending. Confirm that they are zero. Also look at the sale growth factor (rate).
3. Write down the cash surplus numbers at the bottom of the page. Go to the cashflow page and see where this number came from.
4. Go to the assets page and look at the forecast values for Gross Fixed Assets. Confirm that they are constants.
5. Go back to the forecast value page and increase capital spending for each forecast year by \$2,500.
6. Forecast again (don't forget to do this)!
7. Go back to the assets page and see how that \$2,500 was allocated each year, and how it affected GFA. [Note: You could have also done this by overriding the GFA accounts directly - the model works either way].
8. Go back to the forecast value page or the cashflow page and see how this decision to spend affected cashflow. Compare these numbers to the numbers written down in step 3.
9. You now have to finance these capital expenditures. First, go to the forecast page and set the prime rate for all forecast years to .0900, set the short term and addl short term rate to .0800, and the long term rate to .1000. Then go to the liabilities page and spread the financing for each of the forecast years between \$1,000 in Notes Payable and \$1,500 in Existing Long Term Debt (add that amount as an accumulating balance to each year).
10. Forecast again.
11. Look again at the impact upon cashflow of your financing (compare your cashflow page to the default printout).
12. Finally, increase the sales growth factor (rate) on the forecast variable page from default (9.3%) to 2% higher (11.3%) for all forecast years. This reflects your strategy that the expansion you have just financed will increase sales.

13. Forecast again.
14. Go back and compare the income statement and cashflow pages to the default. This is the effect of increasing sales.
15. What final effect is there on cashflow? Was it necessary for you to have borrowed as much as you did (\$2,500 per year)? Be prepared to discuss this.