Hands-On Learning Activity: Detailed Financial Forecasting

Hands-On Learning activity helps you apply detailed forecasting techniques by modeling revenue segments, analyzing expense patterns, and projecting cash flows using IRR. You'll simulate a quarterly forecast for a retail chain.

Objective

To build a segmented revenue forecast, model variable and fixed expenses, and create a basic cash flow projection with IRR calculation.

Instructions:

- Use a spreadsheet tool like Excel or Google Sheets to complete all calculations and modeling steps.

Step 1: Segment Revenue by Product Line

- Assume a retail chain with three product lines: Apparel, Footwear, and Accessories.

- Estimated Monthly Revenue (Q1):
  - Apparel: $120,000
  - Footwear: $80,000
  - Accessories: $50,000
- Apply growth rates for Q2: Apparel (10%), Footwear (8%), Accessories (6%).
- Create a table showing Q1 and Q2 revenue per line and total.

Step 2: Forecast Monthly Expenses

- Fixed Costs per Month: Rent = $25,000, Insurance = $5,000
- Variable Costs (% of revenue):
  - Apparel = 40%, Footwear = 35%, Accessories = 30%
- Calculate total expenses per product line and overall monthly expenses.

Step 3: Build a Quarterly Cash Flow Statement

- Use revenue and expense data from Steps 1 and 2 to compute monthly net income.
- Subtract capital expenditure (CapEx) of $15,000 in Month 2 of Q2.
- Calculate quarterly total net cash flow.

Step 4: Calculate Internal Rate of Return (IRR)

- Assume the following cash flows for Q1 and Q2:
  - Month 1: $20,000
  - Month 2: $15,000 (after CapEx deduction)
  - Month 3: $25,000
  - Month 4: $30,000
  - Month 5: $35,000

- Month 6: $40,000

- Use Excel's IRR function to calculate the IRR over 6 months.

Step 5: Reflect on Forecast Accuracy

- Write 6–8 sentences on:

  - Which assumptions or segments were hardest to model?
  - How might seasonality or external factors influence accuracy?
  - How did this exercise help you connect forecasting with cash flow planning?