

## THE PROBLEM

Spread Eagles Industries Limited would like to build a new Management Accounting System. To do this they are looking to start a 3 Months Project. The Project is to use 500,000.00 Jamaican dollars to manufacture and sell furniture. The working capital will be borrowed from the bank at an interest rate of 10% per annum. Can you begin by giving me a 3 Months cash flow assuming that at the end of 3 Months there is a return on Capital of 100 %

## THE SOLUTION

To create a 3-month cash flow projection for Spread Eagles Industries Limited's project, we need to consider several key components:

- **Initial Investment:** This is the amount to start the project, which in this case is JMD 500,000.
- **Working Capital Loan:** The money borrowed from the bank, which is also JMD 500,000 in this case, at an interest rate of 10% per annum.
- **Revenue:** The money made from selling furniture. You've mentioned a 100% return on capital at the end of 3 months. This means the project is expected to generate JMD 500,000 in profit over and above the initial capital.
- **Expenses:** These include the cost of manufacturing furniture, operating expenses, and interest on the loan.
- **Interest Payments:** Calculated on the loan amount. For a 10% annual interest rate, this will be calculated monthly.
- **Loan Repayment:** Assuming the loan will be repaid at the end of the project.

**Since we don't have specific details on manufacturing costs, selling prices, or other operational expenses, I'll make some assumptions for this projection. Let's also assume that the revenue and expenses are evenly distributed over the three months, and that the loan is repaid in full at the end of the third month.**

Let's calculate the monthly interest first and then proceed to construct the cash flow statement.

Based on the assumptions and calculations, here is the 3-month cash flow projection for Spread Eagles Industries Limited:

### Cash Flow Projection (in Jamaican Dollars)

Month	Revenue	Expenses	Interest	Net Cash Flow
Month 1	333,333.33	166,666.67	4,166.67	162,500.00
Month 2	333,333.33	166,666.67	4,166.67	162,500.00
Month 3	333,333.33	166,666.67	4,166.67	-337,500.00

- Total Interest for 3 Months: JMD 12,500.00

### Key Points:

1. **Revenue:** It's assumed to be evenly distributed over the 3 months, totaling JMD 1,000,000.00 (which includes the 100% return on capital).
2. **Expenses:** These are also evenly distributed, amounting to half of the initial investment each month.
3. **Interest:** Monthly interest on the loan is JMD 4,166.67, leading to a total interest cost of JMD 12,500.00 over the 3 months.

4. Net Cash Flow: This is the revenue minus expenses and interest. For the first two months, the net cash flow is positive. However, in the third month, it's significantly negative due to the repayment of the principal amount of the loan (JMD 500,000.00).
- It's important to note that this projection is simplified and assumes even distribution of revenue and expenses. In a real-world scenario, these figures can vary significantly based on the actual sales volume, production costs, and timing of expenses and revenue. Additionally, the projection does not include any other potential operational costs or cash inflows.