**BA 385, Principles of Finance**

**The Capstone Assignment**

The description here is a follow-up to the material presented in class. The SS template and assignment instructions are posted in Moodle. If you have questions after reading this please talk with me. – Thanks – Curt

**To use the SS to its greatest advantage the following conditions for your business must be met:**

**1. It must be a start-up business**

**2. You must borrow money and demonstrate how you will repay your debt.**

**3. You must provide your own capital. This is the “sale of stock” row on the CF tab. Even if you are not a corporation, think of this as your owner financial contribution to the firm.**

**4. Your business must provide a physical product. You may not start a service firm such as an athletic facility (a running camp), an accounting firm (we’ll do your taxes), guide services (let me help you catch fish), or a consulting business (I charge $150 per hour with no appreciable cost of goods sold). A restaurant is OK because there is a definite cost per unit sold (that $6 burger has $1 worth of ingredients**). **I suggest that you manufacture items with easily identifiable revenues and expenses.**

**5. Pay yourself a decent living wage and show a profit. Why would you make up a failing company where you also get to be poor?**

I believe this assignment is more valuable with a higher level of achievement and understanding if you are required to complete various portions on a regular basis throughout the term. As you complete the tabs on the SS you should also be completing a Word document explaining your assumptions. Later, as you need to change your SS values, be sure to ALSO CHANGE the assumptions on your Word document.

For the first submission you will **submit two documents**; a copy of your completed SS to-date and your corresponding Word document. **In subsequent weeks you will REPLACE each of those documents** with updated versions until you have completed the entire assignment. **Only one partner should be submitting the assignments**. Make sure all LAST names are in the title of the submitted documents so that I can review each and give credit to all group members.

Assignment portions are due within two hours of the completion of the last class period of the week. You may complete each portion of the overall assignment earlier than required, but late work will realize a modest penalty. Still, turning in your work late is vastly preferable to not turning in your work at all. The completed assignment is due two hours after the completion of the last regular day of class for the term (dead week).

After reviewing your submissions, (I INTEND to do this weekly…don’t hold your breath!) I will enter a score in Moodle for your work-to-date. The total possible points are 50 and I will enter a maximum of 5 points per tab/portion submitted.

**Tabs:**

**Week 2: Intro** Think of a name for your company and when you will start your business.

**Week 3: CF** I often start with this, the cash flow tab. After I think about what type of firm I would like to have, I then think about how much money I need to start it and keep it going, and I think about where is that money coming from?!

A couple of important notes for this tab: Row 64 says “Sale of Stock”. Think of this as YOUR contribution to the firms. In most cases I expect you and your partner to personally contribute 50% or more of the start-up costs. After all, if you are not willing and able to contribute money to your firm, why should anyone else? With 20/20 hindsight, I think this cell should have been labeled “Owners Contribution”.

Be sure to begin a regular repayment plan for any money that you do intend to borrow. Also, make sure that the values in row 72, “Ending Cash”, never fall below $0. If they do that means you have failed to meet your financial obligations in that period and are at that point bankrupt.

**Week 4: Sales** Identify the products and/or services you plan to sell. Do this in general terms. I would like you to identify three or four such products/services. For example, if you started a drive-through coffee kiosk, you might identify “hot drinks”, “cold drinks”, “food items”, and “misc.” as your four categories rather than listing a menu of 47 different drinks and sizes.

You then need to spend some time attempting to determine how many of your items you will sell at an AVERAGE price and an AVERAGE cost. Further, if appropriate, add some seasonality to your assumptions. For instance, I would think a drive-through coffee kiosk sells more cold drinks in the summer than it does in the winter.

**Week 5: People** How many people do you need to hire to operate your company and how much are you going to pay them? Are your sales people paid on commission? Are you open more hours over Christmas? Are the people a direct cost of sales or are they an operating expense, or are they a combination?

**Week 6: IS** This is the income statement and it starts by filling in a number of the costs that you have already identified. But you still have to identify your operating costs such as utilities, insurance, rent/lease payments, licensing, Marketing…

**Week 7: BS** A lot of the balance sheet fills in by itself. I suggest that you leave column D “Beginning Balances” alone and treat your firm as a new start-up. If you intend to claim that you are stepping into an on-going firm then you need to complete column D. But this is harder to do if you have no real frame of reference for what a firm’s balance sheet would look like after several years of operation.

What this tab DOES DO is give you the opportunity to think about what percentage of your sales are on credit vs cash (and thus accounts receivable), how much inventory do you need (usually as a percentage of sales), and how you go about paying for things (i.e., accounts payable).

**Week 8: Break** The breakeven tab is often overlooked – don’t you make that mistake. I understand that in the long-run “everything is a variable cost”. But in Business very few items are typically considered to be completely fixed or completely variable. Think about your utility bills for instance. They are never the same from month to month. Does this make them completely variable? Think of it this way: I pay water, sewer, electricity, and natural gas bills. I never pay the same amount in any particular month but I owe something every month. My combined utility bills may range from a low of $100 per month to a high of $300, with an average over the year of $250 per month. Thus, I could view my utility bills as 40% fixed ($100/$250) and 60% variable (1- fixed percentage).

**Week 9: PV** On this tab you are being asked to project out your cash flows (from the cash flow tab) for years 4 – 10. You are making up these numbers, but you need to tell me about your assumptions for arriving at those numbers. A little further down on that page you are thinking about how much money YOU put into the firm, and how much money YOU get out of the firm.

**Week 10: What I learned** This is not a tab, but rather the 300 – 600 word summary from EACH group member of what they have learned from the assignment.