Urban Café – Financial Forecast Report

As a financial analyst for Urban Café, a growing chain of coffee shops, the management is planning for the next fiscal year and requires a detailed budget and financial forecast model to estimate future revenue, costs, and profitability. This report outlines a budget for the next year and extends it into a three-year forecast, using standard assumptions.

# 1. Budget Model (2024)

Assumptions:

- Sales Growth: 10% per year  
- COGS as a Percentage of Sales: 40%  
- Operating Expenses Growth Rate: 5% per year

Projections for 2024:

Revenue = $500,000 × 1.10 = $550,000

COGS = 40% of $550,000 = $220,000

Operating Expenses = $150,000 × 1.05 = $157,500

Net Profit = $550,000 − ($220,000 + $157,500) = $172,500

# 2. Three-Year Forecast (2024–2026)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Projected Revenue ($) | Projected COGS ($) | Projected Operating Expenses ($) | Projected Net Profit ($) |
| 2024 | 550,000 | 220,000 | 157,500 | 172,500 |
| 2025 | 605,000 | 242,000 | 165,375 | 197,625 |
| 2026 | 665,500 | 266,200 | 173,644 | 225,656 |

# 3. Strategic Insights and Forecast Implications

## a) Insights from the Budget and Forecast:

The forecast indicates consistent growth in revenue and profitability, suggesting strong financial performance under current assumptions. Margins improve slightly due to controlled growth in expenses.

## b) Impact of Growth on Profitability:

Profitability increases as revenue compounds annually while costs grow at a slower rate. This drives widening profit margins over the forecast period.

## c) Real-World Assumption Sensitivities:

Unexpected changes such as inflation, rent increases, or supply chain disruptions could affect COGS and operating expenses, reducing accuracy of the forecast. The model should be updated frequently to reflect such changes.

## d) Expansion and Strategic Decision-Making:

This model serves as a benchmark for evaluating new location feasibility. By comparing expected returns to historical profitability, it aids management in making data-driven expansion decisions.

# Conclusion

The financial forecast developed for Urban Café shows positive trends in revenue and net profit over the next three years, under current assumptions. It offers valuable insights for budgeting and planning, and provides a solid base for expansion decisions, assuming continued control of costs.

# References

Investopedia. (2024). \*Cost of Goods Sold (COGS) Explained.\* [Cost of Goods Sold (COGS) Explained With Methods to Calculate It](https://www.investopedia.com/terms/c/cogs.asp)

AccountingTools. (2024). \*Operating Expense Growth Modeling.\* [Operating Expense (OpEx) Definition and Examples](https://www.investopedia.com/terms/o/operating_expense.asp)