

Restaurant Development Group's Winston-Salem Project

Paul E. Juras
The Wayne Calloway School of Business and Accountancy
Wake Forest University
P.O. Box 7285 Reynolda Station
Winston-Salem, NC 27109-7285
E-Mail: JURAS@WFU.EDU

James F. Cotter
The Wayne Calloway School of Business and Accountancy
Wake Forest University
P.O. Box 7285 Reynolda Station
Winston-Salem, NC 27109-7285

Memo

To: Registered Students
From: Mr. Bobbie Filet
Date: March 1st 2006
Re: Restaurant Development Group's Winston-Salem Project

Introduction

Restaurant Development Group (RDG) is considering opening a new restaurant in conjunction with the "Winston-Salem Partnership" group that is attempting develop a center of entertainment in downtown Winston-Salem, NC. As part of the project, the company plans to renovate an existing restaurant space in the downtown area and begin operations in six months. RDG has decided to hire several teams of professionals to handle various facets of the project. One team will work closely with city and county government officials to insure the project has strong support from all relevant government agencies. Another team will be responsible for developing the marketing plan and handling media and public relations to insure the project has a positive reception within the media. Finally, the finance and accounting team has responsibility for examining the financial viability of renovating the restaurant and developing a cash flow budget to determine how much cash will be needed open and operate the restaurant. You are part of this last team and are charged with preparing the necessary analyses. In addition to the "go or no-go" decision, RDG management wants to know whether the restaurant should be open for dinner only or open for lunch and dinner. The purpose of this memo is to ask you to examine the financial viability of refurbishing RDG's proposed restaurant in downtown Winston-Salem and recommend whether the restaurant should be open for lunch and dinner or just dinner.

Description of Restaurant Development Groups

Founded in 2006, Restaurant Development Group is one of the Winston-Salem's foremost privately held, restaurant ownership, management and development companies. RDG currently owns and operates Milner's, a restaurant located on Stratford Road at the old Rockala, site in Winston-Salem. Milner's opened its doors in late 2005 and is the newest Charleston SC inspired restaurant featuring "low-country" food selections. Up to this point, Milner's has been well received in the Triad. The restaurant is positioned as a high-end restaurant with entree menu items ranging from \$10 to \$26. The atmosphere is casual with a bright comfortable bar area. Milner's and has been very successful due to excellent service and unique dining options. Unlike many restaurants, Milner's does not offer lunch service, so it opens daily at 5 PM. RDG is interested in adding another upscale restaurant in Winston-Salem to diversify its portfolio of restaurants, and they would like you to help them decide whether to follow the Milner's model or open for lunch and dinner.

The Uptown New Orleans Restaurant Project

The “Uptown New Orleans Restaurant” is a concept restaurant that RDG is considering for a location that recently came available at the corner of 4th and Marshall Street. The location was previously occupied by the recently closed Tandoor Restaurant that featured Indian cuisine. The restaurant “failed” largely due to uneven service and inconsistent food as well as an inability to attract upscale customers at dinner and attract downtown business professionals at lunch.

RDG is planning a complete makeover of the existing facility and a complete change in the menu to attract upscale guests looking for fine flavorful New Orleans cuisine. The menu will feature ala carte appetizers, salads and entrees in the \$17 to \$27 range followed by dessert. The company anticipates that the average bill will be approximately \$38 per person but RDG would like your opinion about the price point they are considering.

After renovation, the Uptown New Orleans restaurant will be tastefully appointed with elegant yet comfortable furnishings. RDG believes that 4th and Marshall is an ideal location for a restaurant as well as a wide variety of meetings and social events. Upon renovation, the Uptown New Orleans will provide over 6,000 square feet of flexible, well-appointed restaurant, private party and modest banquet space. With the expertise gained during the opening of Milner’s, the company expects that its professional staff and capable managers will open the Uptown New Orleans without a hitch.

The Uptown New Orleans is well located near a variety of downtown Winston-Salem attractions, including the Winston-Salem Convention Center, the Marriott, Embassy Suites hotel, and numerous bars and other restaurants, not the least of which is the Camel City Cafe and Wine Bar on the opposite corner.

Weekly Cash Flow Projections (Accounting Requirement)

In addition to financial viability, this project involves projecting the restaurant’s cash flow. The cash flow budget will cover the beginning of the construction phase to several months after the restaurant is up and running. More details about this requirement will be provided in an addendum to this memo after spring break.

Construction Costs

The renovation part of this project will require that all existing materials be removed from the site and replaced with new interior furnishings. The restaurant renovation will be divided into two parts, the kitchen and the dining area.

Operating Revenues

You will need to make specific estimates of customer count and revenue per customer (food and alcoholic beverages) for the restaurant as the opening process begins.

Operating Costs

You will need to make specific estimates of the cost structure of the restaurant. This includes items like the cost of food, utilities, rent, insurance, personnel, management, credit card charges, marketing, repairs, administration, interest expense, and taxes.

Balance Sheet Impact on Cash Flow

In addition to the estimates for the impact of income statement items on the cash flow, you will need to make specific estimates of certain balance sheet items and include their impact on the cash flow structure of the business before construction, during the grand opening operation, and after things have stabilized. These items generally include fixed asset and working capital requirements.

Financial Viability Assumptions (Finance Requirement)

For this project, a meeting has been scheduled between the RDG Investment's restaurant renovation group and you to discuss the assumptions you should use for the project. You will need to examine the revenue assumptions, the operating cost assumptions, the initial investment assumptions, and the assumptions necessary to derive the cost of capital for the project.

Revenue Projections

The project will require that you examine the likely revenues of the restaurant if they open for dinner or open for lunch and dinner. You will likely need to provide assumptions about the average selling price per patron and how the dinner vs. lunch and dinner will affect the revenues from the restaurant.

Operating Cost Assumptions

The operating costs for the project will mirror that of companies similar to RDG that operate upscale restaurants. You will need to estimate the likely cost structure under the dinner vs. lunch and dinner format. Similarly, you will need to estimate the cost to operate and maintain the restaurant (administrative costs, janitorial services, and direct costs at the restaurant). Finally, you will need to consider the project's impact on headquarters expenses associated with the restaurant renovation.

Renovation Assumptions

You will need to determine the renovation costs and the likely duration of the renovation project. In order to make a smooth transition from its current situation to a rebranded property, several assumptions need to be made regarding the cost of reconfiguring the kitchen and outfitting the dining area. During the project, RDG will need to pay the cost to rent the restaurant space for six months but this cost will be paid prior to opening the restaurant and will be paid in the "past or sunk when the restaurant opens. The costs of renovating the rooms will be depreciated based on all applicable IRS rules for this type of project.

Cost of Capital

Estimate the cost of capital for The Uptown New Orleans project given that RDG is embarking on a project that is just like all the other properties that it currently owns. Assume that RDG's current

capital structure consists of 65% debt and 35% equity and at the beginning of the project, a separate corporation will be set up and funded. One of your tasks is to determine how much will need to be borrowed and invested initially to insure the greatest likelihood of success.

Formatting Requirements

Your memo should follow the format established in the “Memo about memos” handed out in class. In this assignment, you should limit your memo to six pages and three one-page attachments presenting the cash budget and the financial viability (total of nine pages), using 1 ½ spacing, 12-point font, with 1” margins all around. As usual, you should not assume that charts and tables speak for themselves and you should write what you think the reader should know to make a decision based on your memo. In this case, assume that the memo is written to RDG’s senior management, some of whom are not in finance.

Presentation Criteria

After the memo has been submitted, there will be group presentations. The memos will serve as the basis of the presentation made by your group.

Conclusion

Complete a memo demonstrating two things: 1) the viability of a project that entails renovating one floor of The Uptown New Orleans project to enhance the revenue stream of the restaurant, and 2) how much money should be on hand initially to renovate the restaurant and fund any negative cash flows associated with the early stages of operation. Remember, your job is to help senior management understand the financial implications of this project. Please forward a hard copy of your memo to your professor by 4 PM on Wednesday, The Due Date. Memos that are late will be assessed a penalty of 10% per day beginning at 4:01PM.

Appendix 1 – memo about memos

Memo

To: All Students
From: Professor
Date: Eternal
Re: Memo about memos

Introduction

In past semesters, students have asked for a standard written assignment (memo) format to be used in this class. The purpose of this memo is to lay out the components that should be included when you hand in an assignment to me. The following outlines each component of the document.

An Overview of the Memo

A business memo is designed to present your analysis and the key issues you think are important. When writing the memo, you should think about your reader's perspective and write it to satisfy their needs. For the purposes of this class, you should assume that your reader is an otherwise intelligent and reasonable businessperson who is largely unfamiliar with the details of the current project and advanced finance concepts. You should also assume that the reader does NOT know the details of the assignment and therefore needs a summary of the project, and the facts of the situation. You need to present all the assumptions that you use in the analysis and not assume that key details can be left out because "the reader already knows them". Similarly, the key information given to you in the assignment should be included memo because your reader will not know what was included in the assignment. This means that the background material should be included in your memo before you present your analysis and conclusions. To say that YOU (meaning the professor or your reader) already knows this or that is not acceptable. This requirement is normally met by parroting the facts of the case as presented by the assignment under the category of "assumptions".

You should not, however, provide a complete description of the basics of finance in each memo assuming that most intelligent business people will know that the present value of \$100.00 is less than \$100.00 or that an increase in inventory is a use of cash. Similarly, it is rare that you will have to define common ratios such as current ratio, debt to equity ratio, or Days of Sales Outstanding. If you use non-standard ratios, include their definition. Remember that your written work should contain enough detail so that a reasonable person would have enough information to come to the same conclusion that you have; not just accept your conclusion without supporting documentation.

The Format of the Memo

Every memo should start with TFSD - To: (to whom the memo is intended), From: (the author - you), Subject: (the topic of the memo), and the Date: (the date when the memo is sent). You

might consider using the wonders of technology and use Microsoft Word's memo template by clicking on File, Open, and then selecting the "professional" memo template of your choice.

After TFSD, each memo should contain an introduction, a conclusion, and all the details/assumptions/analysis in between. In the introduction you should answer such questions as "Why is the memo being written?" or "What is the purpose of this memo?" or "Why should the reader read this memo?". One of the early sentences in the introduction often begins with the following phrase: "The purpose of this memo is to".

The center section of the memo should contain several sections separated by appropriate label descriptions outlining each area of the memo. Be sure to label each section with a few descriptive words in bold and underlined print. This will tell the reader what the section is about and assist them in skimming the document. For instance, the label "Financial Analysis – Profitability" might be a wonderful section label that precedes a section of your memo that analyzes a firm's profitability. It might not surprise you to find out that a label that uses the words "Main Body" is not a very good, nor descriptive section label. Each section should lay out your analysis in sufficient detail to understand and agree with your conclusions.

It is also important to organize the memo in such a way so as to get the right material first and the right material at the end of the memo. For instance, the early part of the memo might include any necessary background material the reader might need to know about the business situation. Next you might consider presenting a description of the method or technique that you are using in the analysis. This would then be followed by any assumptions that you are using in the analysis as well as justification for the assumptions. Finally, you might include a section that describes the results from the analysis and what the reader should draw from these results.

In a business memo, you will often have numerous documents and materials that are referenced in the memo and attached as exhibits. For this class, you will NOT be allowed to do so. FOR THE PURPOSES OF THIS CLASS UNLESS OTHERWISE STATED IN THE ASSIGNMENT, YOU WILL NOT BE ALLOWED TO ATTACH ANYTHING BEYOND THE MEMO AND ANY PAGE LIMITS WILL REQUIRE THAT ALL INFORMATION BE PRESENTED IN THE DESIGNATED NUMBER OF PAGES. Unless otherwise noted in the assignment, you are limited to three pages for each memo.

Finally, the conclusion of the memo should summarize your major conclusions outlined in each section of the memo. No new information should appear in the conclusion of the memo. You should be able to read the conclusion and be able to describe to someone else what you have said and concluded from your analysis.

As they say in literature circles, a memo (communication document) should 1) Say what you are going to say [Introduction], 2) Say it [interesting section #1 properly labeled], 3) Say it [interesting section #2 properly labeled], 4) Say it [interesting section #3 properly labeled], and 5) Say what you just said [Conclusion]. No new information should be included in the conclusion of the memo.

Other issues

- 99.999999999% of the time you should not use first person in a memo. First person includes such often used words like: I, my, me, our, we, or the author. Instead of saying: “I calculated the present value of my cash flows and then I multiplied each of my cash flows times the appropriate present value factor that I calculated”, you might consider: “The present value of each cash flow is calculated by multiplying the amount of each cash flow times the appropriate present value factor”. Of course, in real life there will be instances, however rare, that will require the use of first person because you are truly stating your opinion. In this class, you will be asked to present the facts and not give your opinion of the analysis very often. As a result, first person should not be used. The use of first person will result in a one letter grade reduction of your grade. Summarizing, avoid first person and everyone will be happy.
- Value judgments in a memo section – Generally, you will be analyzing a financial situation or business situation and you should include a value judgment associated with the ratio being discussed. Instead of writing “Net margin increased from 1% to 2% from FY 2003 to FY 2004.” Say “Net margin improved from 1% to 2% from FY 2003 to FY 2004.” While you don’t need to do this each and every time, about half of the references to increased should actually be improved (if an increase is good) (or other value judgment term to replace good) and about half of the references to decreased should actually be weakened (if a decrease is bad) (or other value judgment term in place of weakened). It is generally recommended that you include your overall view of an analysis category at the beginning of the section followed by what you think proves your analysis.
- Information presented in tables, charts, or with bullet points is strongly recommended. Studies have shown that people comprehend more when they see data in a chart, table, or in a bullet point (or numbered) format. It is highly recommend that you adopt this strategy in your work. When you find yourself listing details or numbers in the middle of a paragraph, consider one of these more graphic presentation alternatives. For each section of your memos relating to the financials, for instance, you should present a table presenting the ratios. Tables/charts do not, however, speak for themselves. Please insure that tables are used to provide evidence to support your point of view. Often times, this will require that you refer to some, but not all, of the numbers in a table of financial ratios, for instance.
- Referencing data in tables – As discussed earlier, tables/charts/bullet points probably provide the most information in a memo for the space taken. Similarly, this memo argues that tables do not speak for themselves, but rather, you should include a description of what the reader should “get” from each table/chart. Often this means that you should refer to the table/chart by name (e.g. Table 1 – Profitability Analysis) and include any important numbers from the table/chart in the text. It is important that you include numbers in the text but not all the numbers from the table. Also, do not attempt to make the reader calculate a number in their head, but that you refer to the specific number in the table. For instance, if sales increase from \$15.3 million to \$16.8 million and you would like the reader to be able to put this increase in perspective, calculate the percentage change and include a line in the table for sales growth indicating that sales grew by 9.80%. Then you can refer to the sales growth rate of 9.80% in the text. Don’t just present the sales data and include the increase in sales of \$1.5 million or 9.80% in the text unless you

present the dollar and percentage change in the table. Generally, if a number isn't in a table, you shouldn't refer to it in the text.

- **Table Labels** – As was just mentioned, tables and charts in a memo should be labeled in much the same way that tables and graphs are labeled in a typical text book. That is, tables should be labeled with the word “Table” followed by a number (starting with 1) and the number should be incremented by one each table. Following the word “Table 1”, you should include two to five words that describe the contents of the table. So, for instance, you might be presenting financial ratios in Table 1 and the label should be as follows: “Table 1 Financial Ratios for Wal-Mart – 1999-2005”.
- **Consistency** - It is common for the writer of a memo to insure consistency within the memo. For instance, if you refer to a company Wal-Mart, insure that you always type Wal-Mart and not such alternatives as Walmart, Wal-mart, or WalMart. Likewise, when presenting numbers, attempt to use the same number of significant digits each time. In a table, it is hard to read and internalize numbers when one number has a many significant digits such as 9.949558383 that should be compared to another number 8.6. When presenting very large numbers, you should consider only presenting a few significant digits rather than all those available. For instance, it is true that Wal-Mart's FY 2005 sales figure was \$285,222 million but it would likely be more effective to limit the number of significant digits by saying that Wal-Mart's FY 2005 sales were \$285.2 Billion..
- **Abbreviations** - From time to time, you should consider abbreviating a group of words with a simple abbreviation. For instance, it is common to refer to "return on equity" as ROE. In order to do this, the first time you use a phrase in your memo that you would like to abbreviate, you should follow the phrase with parentheses containing the abbreviation. So for instance, Return on Equity (ROE) would indicate to the reader that henceforth after the first use of Return on Equity, ROE will mean Return on Equity.
- **Standardization** - You should limit your memo to the number of pages specified in the assignment (assume 3 pages if it is not specified), use 1 ½ spacing, 12-point Times New Roman font, with 1” margins all around. Not using 1 ½ spacing, 12-point Times New Roman font, with 1” margins all around will result in a 10% reduction in the grade. To repeat; failure to follow the formatting requirements outlined in this section will result in a 10% reduction in your grade. Questions?
- **Plagiarism** is defined as indicating in a memo that you have actually written the text of the memo when you have not. If this is the case, you are a plagiarist. Plagiarism is bad, not permitted in the class and if you do it, I won't like you. Of course, it is fine to include material that you have not written if proper attribution is included. As one objective of this course is to develop YOUR ability to communicate, attributed text from other writers should be kept to an absolute minimum.

Restaurant Development Group's Winston-Salem Project

Teaching note

Synopsis and guidelines for instruction

A restaurant space has become available in Winston-Salem and an investment group is trying to decide whether or not to open a new restaurant in the space. The group has already decided that this will be an upscale restaurant, but they have not decided whether to open just for dinner or for both lunch and dinner. The case asks students to take the role of analysts and perform a projection of case requirements in the form of a cash budget and a capital investment analysis. Their analysis is to then serve as the basis for a recommendation as to whether or not to renovate the site and whether to open for lunch and dinner or just dinner. A unique aspect of the case is that the students have to go out and research what is involved in renovating and operating a restaurant. It requires one or more professionals from the community to act as a resource for the students' data collection efforts, and the professionals can also act as the investment group and help evaluate the students' analysis and recommendations.

The case requires a fair amount of "number crunching" but also requires the students to have at least some basic understanding of the role of strategy in managing an organization. The entire case can be covered in one 50 minute class session, and can be used in an undergraduate management accounting course (as long as capital budgeting is covered), or an introductory finance course.

The case can be used as a sequenced project and stand alone in either course, but we found the integration across courses beneficial. We incorporated the case into an introductory management accounting course and a capstone finance course by creating teams that included students from each course. While the teams were given the freedom to decide what to emphasize in their analysis, there were two mandatory outputs. The management accounting students were given primary responsibility

for the cash budgeting and the finance students had primary responsibility for the capital investment analysis. We provided the students with access the owner of several restaurants via a conference call. The students were free to ask the questions they thought were relevant, and the individual was prompted to respond with as much or as little detail as he wanted, but to not solve the students' problem for them.

The teams were required to make a joint presentation to a panel. The three top teams were then allowed to refine their analysis and presentation and then make a second, slightly longer, presentation to a panel of outsiders, who then decided the overall winning team.

Objectives:

The value of cost information comes from how management uses it, and the effective use of costing information is strategically important to an organization. This case is designed to help students:

- Understand how the strategy of the organization affects nature of the data needed to generate information to support strategic decision making.
- Gain experience in collecting information to support a specific management decision.
- Develop and understanding to the integration of various accounting topics, in this case, cost behavior, relevant costing, cash budgeting, and capital investment analysis.

Required Questions

Prepare an analysis to help management make a decision as to:

- Whether to renovate the space that has become available in Winston-Salem
- Whether to open for lunch and dinner or just dinner.

You have the freedom to decide what to emphasize, but you are required to prepare a n estimate of the pre-opening costs, a one-year cash budget, and a capital investment analysis that covers a seven to ten year horizon. A template has been provided to standardize the format of the cash

budget. Your team will make an eight minute presentations and prepare a memo to support your analysis. The memo should follow prescribed guidelines appearing in the memo on memos that was appended to the case.

Sample solution from one student group

		July	August	September	October	Totals		
Renovation Cash Inflow								
Equity	0.35	350,000					Average lunch price	20
Lending	0.65	650,000					Lunches per day (first two weeks)	150
Total Cash Inflow		1,000,000					Lunches per day	135
Cash Outflow							Days per week	5
Rent Expense		-	-	-	-	-		
Renovation								2x 15,000
Kitchen		(75,000)	(75,000)			(150,000)	after	13,500
Bar				(65,000)	(25,000)	(90,000)		
Dining Area				(180,000)	(180,000)	(360,000)	Average dinner price	38
Equipment Investment				(100,000)		(100,000)	Dinners per day	235
Operations							Dinners per day (first two weeks)	263
Place setting					(18,000)		Days per week	7
Furnishing (bar and dining)					(56,454)			
Miscellaneous Expenses					(5,000)			2x 69,958
Advertising					(50,000)		after	62,510
Interest Payments	-0.0067	(4,355)	(4,355)	(4,355)	(4,355)	(17,420)		
Total Cash Outflows		(79,355)	(79,355)	(349,355)	(338,809)	(846,874)		
Cash Balance		920,645	841,290	491,935	153,126			

Sample solution from one student group

Operation Cash Flows	November				December	January	February	March	April	
	Rate	Week 1	Week 2	Week 3	Week 4	Month 2	Month 3	Month 4	Month 5	Month 6
Operating Cash Inflow										
Sales- Lunch 135/day		15,000	15,000	13,500	13,500	54,000	54,000	54,000	54,000	54,000
Sales- Dinner 235/day		69,958	69,958	62,510	62,510	250,040	250,040	250,040	250,040	250,040
Total Sales		84,958	84,958	76,010	76,010	304,040	304,040	304,040	304,040	304,040
Cash Sales (15%)	15.00%	12,744	12,744	11,402	11,402	45,606	45,606	45,606	45,606	45,606
Credit Sales (85%)	85.00%	72,214	72,214	64,609	64,609	258,434	258,434	258,434	258,434	258,434
Cash Received from Credit		36,107	36,107	32,304	32,304	226,130	226,130	226,130	226,130	226,130
Cash Received from Previous week		-	36,107	36,107	32,304	32,304	32,304	32,304	32,304	32,304
Total Cash Receipts		48,851	84,958	79,813	76,010	304,040	304,040	304,040	304,040	304,040

Sample solution from one student group

Operating Cash										
Outflow										
Insurance - 50K annually	(4,167)			(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)
Utilities for dinner only	(5,000)			(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Utilities for lunch	(1,600)			(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Rent	(29,000)	-				-	(29,000)	(29,000)	(29,000)	(29,000)
Cost Of Food	-30.00%	(25,487)	(25,487)	(22,803)	(22,803)	(91,212)	(91,212)	(91,212)	(91,212)	(91,212)
Labor										
Hourly for dinner	(3,823)		(7,646)		(7,646)	(15,293)	(15,293)	(15,293)	(15,293)	(15,293)
Hourly for lunch	(2,033)		(4,066)		(4,066)	(8,131)	(8,131)	(8,131)	(8,131)	(8,131)
Salaries (monthly)	(51,667)				(51,667)	(51,667)	(51,667)	(51,667)	(51,667)	(51,667)
Sales Taxes Payable	-8.00%	(6,797)	(6,797)	(6,081)	(6,081)	(24,323)	(24,323)	(24,323)	(24,323)	(24,323)
Income Tax Payable (see below)					(43,339)	(39,065)	(27,465)	(27,465)	(27,465)	(27,465)
Interest on Financing (.08 yearly)	-0.67%				(4,333)	(4,333)	(4,333)	(4,333)	(4,333)	(4,333)
Credit Card Fee (% of Sales)	-2.70%	(1,950)	(1,950)	(1,744)	(1,744)	(6,978)	(6,978)	(6,978)	(6,978)	(6,978)
Total Cash Payments		(34,234)	(45,946)	(30,628)	(152,446)	(251,769)	(269,169)	(269,169)	(269,169)	(269,169)
Change in Cash		14,617	39,012	49,185	(76,436)	52,271	34,871	34,871	34,871	34,871
Previous Cash Balance		153,126	167,743	206,755	255,940	179,504	231,776	266,647	301,519	336,390
New Cash Balance		167,743	206,755	255,940	179,504	231,776	266,647	301,519	336,390	371,262

Sample solution from one student group

Modified Income Statement	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sales	321,936	304,040	304,040	304,040	304,040	304,040
Expenses	(215,748)	(208,537)	(237,537)	(237,537)	(237,537)	(237,537)
Depreciation- Equipment	(1,390)	(1,390)	(1,390)	(1,390)	(1,390)	(1,390)
Depreciation- Dining Area & Bar	(784)	(784)	(784)	(784)	(784)	(784)
Total Expenses	(217,922)	(210,711)	(239,711)	(239,711)	(239,711)	(239,711)
Net Income	104,014	93,329	64,329	64,329	64,329	64,329
Income Tax Payable (monthly)	(41,606)	(37,332)	(25,732)	(25,732)	(25,732)	(25,732)
Minus Interest Payments	(1,733)	(1,733)	(1,733)	(1,733)	(1,733)	(1,733)
Total Income Tax Payable	(43,339)	(39,065)	(27,465)	(27,465)	(27,465)	(27,465)
Net Income After Taxes	60,675	54,264	36,864	36,864	36,864	36,864

Sample solution from one student group

RRR
25%

	1	2	3	4	5	6	7	8	9
	July	August	September	October	November	December	January	February	March
Investment	(79,355)	(79,355)	(349,355)	(338,809)					
Operating Cash Flow					26,378	52,271	34,871	34,871	34,871
Terminal Value									
Cash Flow	(79,355)	(79,355)	(349,355)	(338,809)	26,378	52,271	34,871	34,871	34,871
Discount Rate	0.98	0.96	0.94	0.92	0.90	0.88	0.87	0.85	0.83
	(77,736)	(76,149)	(328,399)	(311,986)	23,794	46,189	30,185	29,569	28,965