

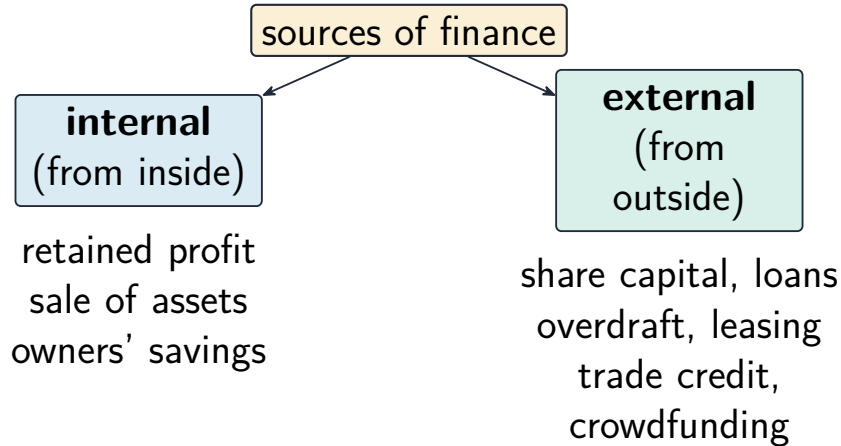
Exercise walk-through

5.3

Forecasting and managing cash flows

A-Level Business

Sources of finance



Internal (retained profit, asset sales) vs **external** (share capital, loan, overdraft, leasing).

Choose by amount, purpose, cost, structure & **collateral**.

Where the money comes from

Why it is needed

Business finance premises is the money a firm needs to start, run and grow – and equipment to begin with, projects to grow, and day-to-day bills always.

Internal sources

Internal sources : retained profit, and the **sale of assets** the firm no longer needs. No interest, no lost control.

External, short

External sources : an overdraft, or **trade credit** a supplier after 30 days.

– paying

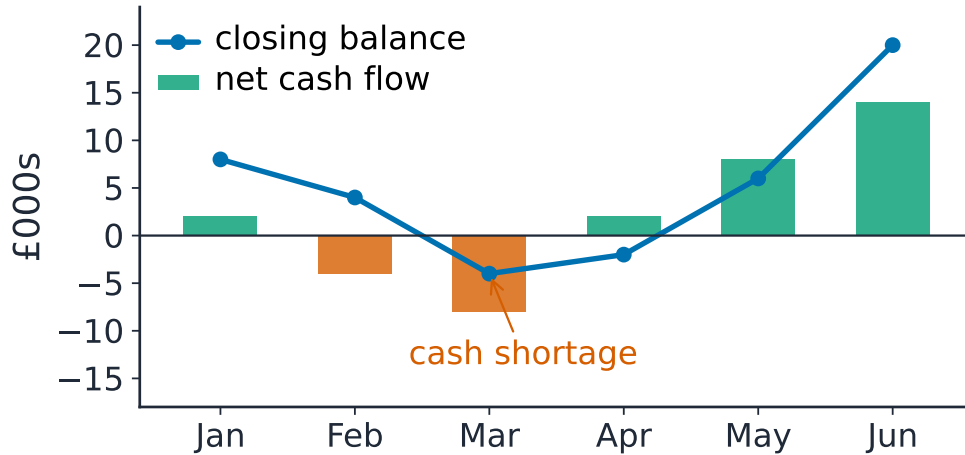
External, long

A bank loan, share capital, or **venture capital** into risky young firms, usually for a share of the business.

: money from investors

Match the term of the finance to the life of the asset: a 30-day credit for stock, a ten-year loan for a building.

Cash-flow forecasts



$\text{closing} = \text{opening} + \text{net}$ · negative = cash shortage

Net cash flow =
inflows — outflows; add to the
opening balance for
the closing balance. Fix
shortages: collect sooner, delay
payments, arrange an overdraft,
hold less stock.

Cash in, cash out – and what a forecast is for

Cash inflows

Cash inflows

: money coming in, mostly from sales.

Cash outflows

Cash outflows

: money going out – wages, rent, suppliers, tax.

The net position

Inflows minus outflows gives the net cash flow; add the opening balance for the closing balance.

What it shows

When the firm will run short – months before it happens, while an overdraft can still be arranged.

A profitable business can still fail: profit is a measure over a year, cash is a balance on a Tuesday.

Cash-flow trouble: causes and cures

causes

too many sales on credit, too much stock, too many assets bought at once, or overtrading

bring cash in

ask customers to pay faster, or discount for quick payment

push cash out later

negotiate longer credit from suppliers; lease rather than buy

the balance

working capital management keeps enough cash to be safe without leaving money idle

A **cash-flow forecast**
it arrives.

is worth making because it shows the shortage BEFORE

Exercises 2.1-2.3

2.1 Define the term *net cash flow*.

[2]

2.2 A month opens with \$4,000. Inflows are \$20,000 and outflows are \$23,000. Calculate the closing balance.

[2]

2.3 State two causes of cash-flow problems.

[2]

Exercises 2.1-2.3

2.1 Define the term *net cash flow*.

[2]

2.1

- the difference between cash inflows and cash outflows over a period (2 for a clear definition; 1 for a partial idea)

2.2 A month opens with \$4,000. Inflows are \$20,000 and outflows are \$23,000. Calculate the closing balance.

[2]

2.2

- net cash flow = $\$20,000 - \$23,000 = -\$3,000$; closing = $\$4,000 + (-\$3,000) = \$1,000$ (2; award 1 for a correct method with the wrong figure)

2.3 State two causes of cash-flow problems.

[2]

2.3

- any two of: too many sales on credit; holding too much stock; buying too many assets at once; overtrading (1 + 1)

Exercises 3.1-3.2

3.1 Explain one benefit to a business of producing a cash-flow forecast. [3]

3.2 Analyse two ways a business could improve its cash flow. [8]

Exercises 3.1-3.2

3.1 Explain one benefit to a business of producing a cash-flow forecast. [3]

3.1

- [3] **AO1** 1 – name a benefit (spots a shortage early; helps arrange finance; supports planning). **AO2** up to 2 – develop it, e.g. a forecast shows a shortage two months ahead
- the firm arranges an overdraft in time
- it avoids running out of cash (2 developed / 1 limited)

3.2 Analyse two ways a business could improve its cash flow. [8]

3.2

- [8] For **each** of two ways: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains – *faster customer payment*: offer a discount for early payment
- cash comes in sooner
- the gap is covered. *Longer trade credit*: agree to pay suppliers later
- cash stays in the business longer
- the shortage is eased. Maximum 4 per way, 8 total

Exercise 3.3

3.3 A business has forecast a cash shortage in three months' time. Evaluate the best way for it to deal with this. [12]

Exercise 3.3

3.3 A business has forecast a cash shortage in three months' time. Evaluate the best way for it to deal with this. [12]

3.3

- [12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. Compare options: an **overdraft** is fast and flexible but has high interest; **chasing debtors** brings in owed cash but may annoy customers; **cutting stock** frees cash but risks stock-outs; **delaying suppliers** helps but can harm relationships. Judgement: the best choice depends on the size and length of the shortage – a short gap suits an overdraft, while a deeper problem needs better working-capital management, not just borrowing