Exercise walk-through

Forecasting and managing cash flows ▪ 5.3

eXercise

You must be able to

- calculate net cash flow and the closing balance
- explain the causes of cash-flow problems (including **overtrading 过度交易**)
- analyse and evaluate ways to improve cash flow

Method — Reading a cash-flow forecast

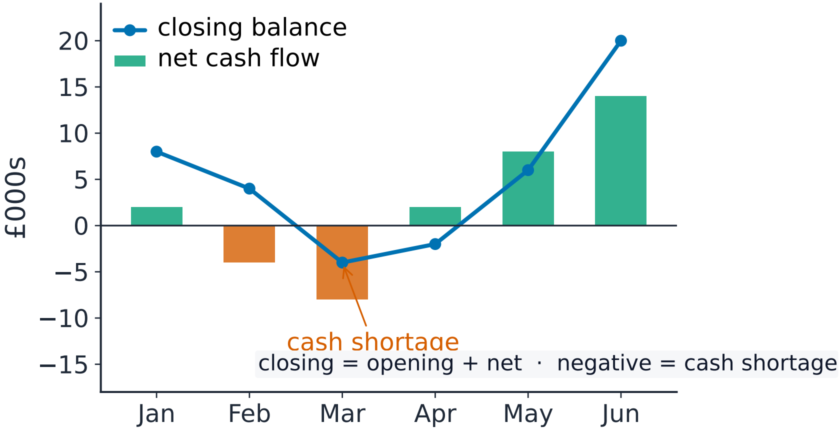
$$\text{net cash flow} = \text{cash inflows} - \text{cash outflows}$$

$$\text{closing balance} = \text{opening balance} + \text{net cash flow}$$

- **Worked:** opening \$8,000; inflows \$30,000; outflows \$25,000 $\rightarrow$ net $= \$5{,}000$, closing $= \$13{,}000$.
- **Improve cash flow by:** bringing cash in sooner (faster payment, discounts), delaying cash out (longer trade credit), an overdraft, or holding less stock.

Answer shapes: AO1 + AO2 + AO3 (reasoning chain) + AO4 (a supported judgement *in context*).

Method — Reading a cash-flow forecast



A cash-flow forecast warns of a shortage early

Practice 2.1 ▪ 2 marks

Define the term *net cash flow*.

Solution 2.1

Method: Reading a cash-flow forecast

Worked steps

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

Practice 2.2 ▪ 2 marks

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

Solution 2.2

Method: Reading a cash-flow forecast

Worked steps

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).

Practice 2.3 ▪ 2 marks

State two causes of cash-flow problems.

Solution 2.3

Method: Reading a cash-flow forecast

Worked steps

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

Exam-style 3.1 ▪ 3 marks

Explain one benefit to a business of producing a cash-flow forecast.

Solution 3.1

Method: Reading a cash-flow forecast

Worked steps

[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).

Exam-style 3.2 ▪ 8 marks

Analyse two ways a business could improve its cash flow.

Solution 3.2

Method: Reading a cash-flow forecast

Worked steps

[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.

Exam-style 3.3 ▪ 12 marks

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

Solution 3.3

Method: Reading a cash-flow forecast

Worked steps

[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.