A-LEVEL BUSINESS • EXERCISE SHEET

5.3 Forecasting and managing cash flows

Name: _____ Class: _____ Date: _____ **Total: 29 marks**

KEY WORDS cash-flow forecast 现金流量预测 • net cash flow 净现金流 • closing balance 期末余额 • cash inflows 现金流入 • cash outflows 现金流出

Objective

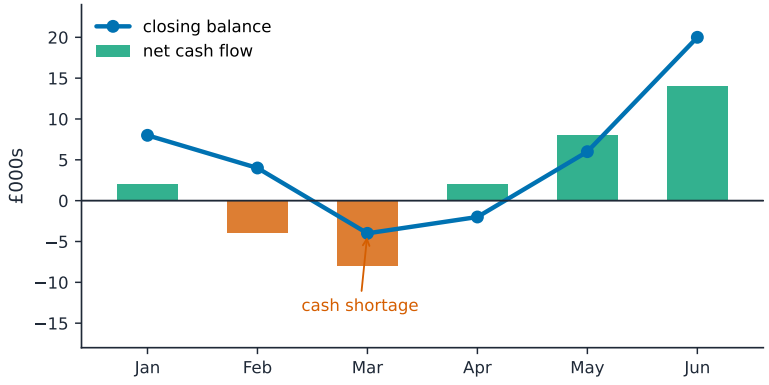
Build the skills to answer exam questions on **cash-flow forecasting** 现金流量预测 — **cash inflows and outflows** 现金流入和流出, **net cash flow** 净现金流, the **opening and closing balance** 期初和期末余额, and how to fix cash-flow problems.

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

1 Worked examples

■ Reading a cash-flow forecast



closing = opening + net · negative = cash shortage

Each month's closing balance carries forward as next month's opening balance

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

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

- **Worked:** opening \$8,000; inflows \$30,000; outflows \$25,000 → 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*).

2 Practice

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]

3 Exam-style questions

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]

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

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

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

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 *[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.

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.