

Exercise walk-through

3.1

Cash, finance and appraisal: supported rehearsal

International Baccalaureate · IB Diploma · Business Management · HL

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The method

Method — Worked example

Profit records revenue and expenses; cash flow records receipts and payments. A profitable sale on credit may not supply cash today. Match finance duration, cost, control and repayment to the need. Appraisal must state forecast assumptions and uncertainty.

Original case: opening cash 1,500 currency units, receipts 2,800, payments 3,600.

Compute closing cash and evaluate paying 900 for equipment immediately.

Net cash flow = receipts – payments = $2,800 - 3,600 = -800$ units. Closing cash = opening cash + net cash flow = $1,500 - 800 = 700$ units. An immediate 900-unit purchase creates a 200-unit cash gap unless other timings or finance change. Forecast later receipts, consider staged purchase or suitable finance and compare repayment with expected benefits. A positive accounting profit cannot resolve this timing gap.

Method — Worked example

Appraisal must state forecast assumptions and uncertainty.

Cash-flow bridge: timing matters



Net cash flow = receipts – payments = –1200

Closing cash = opening cash + net cash flow = 800

Exercises 2.1-3.1

2.1 For the worked case, identify the evidence and a conclusion it can support. Explain one material limit. [3]

3.1 Project A repays sooner; project B produces larger later inflows. Is payback sufficient for choosing? Give a reasoned answer, evidence or method, and a relevant qualification.[3]

Exercises 2.1·3.1

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2.1 Net cash flow=receipts–payments=2,800–3,600=–800 units. Closing cash=opening cash+net cash flow=1,500–800=700 units. An immediate 900-unit purchase creates a 200-unit cash gap unless other timings or finance change. Forecast later receipts, consider staged purchase or suitable finance and compare repayment with expected benefits. A positive accounting profit cannot resolve this timing gap. Authored points for identifying relevant evidence, explaining a supported inference and a material limit.

3.1 Project A repays sooner; project B produces larger later inflows. Is payback sufficient for choosing? Give a reasoned answer, evidence or method, and a relevant qualification.[3]

3.1 Payback indicates recovery time and liquidity exposure but ignores later flows and, in its simple form, time value. Compare relevant appraisal measures, forecast reliability, finance and strategic fit. Neither larger total cash nor quicker recovery alone decides every context. Authored points for a relevant judgement, reason tied to the case and justified qualification or method. Accept a supported alternative.