Solutions

Marking: **M1** a correct method, **A1** the correct answer, **B1** an independent mark.

Each answer shows the steps, then the **result**.

2.1

cash: the money actually held by the business or in its bank account at a point in time; profit: revenue minus costs over a period, which may include sales on credit not yet paid

2.2

current assets minus current liabilities; the money available for day-to-day running of the business

2.3

net cash flow: January −2 000, February +1 000, March −5 000; closing balance: January 3 000, February 4 000, March **−1 000**

2.4

e.g. it sells on credit, so revenue is counted as profit before cash arrives / spends heavily on stock or equipment / overtrading; explained: outflows (wages, suppliers) must be paid before cash from customers comes in

2.5

cash goes out to suppliers 30 days before cash comes in from customers, so cash is tied up and the working capital cycle is long; changes, any two: shorten customer credit / offer discounts for early payment; negotiate longer credit from suppliers / use an overdraft or factoring

3.1

award up to [10]: the closing balance becomes negative in December (−1 000) and worse in January (−5 000); causes: seasonal fall in sales; the oven purchase; delay or lease the oven: removes the $3,000 outflow, but may limit menu or raise long-term costs; overdraft for the winter months: flexible and repaid in summer, but interest costs; cut outflows: fewer staff hours or a shorter opening time in winter, but may lose regular customers; raise inflows: winter promotions, events, takeaway service; negotiate later payment with suppliers; judgement, e.g. delay the oven and arrange a small overdraft, as the problem is seasonal and short-term

3.2

overtrading: growing faster than its cash and working capital can support; it must buy more stock and pay more staff before customers pay; so cash runs out even though profit is high; suppliers may stop supplying, and the firm could fail; avoid failure: slow growth / raise long-term finance such as share capital / better stock control; explained in context

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