Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

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

2.1

- net cash flow $= 9000 - 7500 = 1500$
- closing $= 2000 + 1500 =$ \$**3500**

2.2

- without cash it **cannot pay** bills, wages or suppliers in March (1)
- arranging finance **in advance** is easier and cheaper than in a crisis (1)
- the forecast shows the bank **how much** is needed and that it is short-term (1)

3.1

A

3.2

(a)

- an **estimate** of a business's future cash **inflows and outflows**, usually month by month

(b)

- $4500 + (-3500)$
- $=$ \$**1000**

(c) two causes, each outlined (K + App each):

- **seasonal** sales: low in April and June, a peak in May
- paying suppliers in **cash** while hotels pay after **60 days**
- flowers spoil, so unsold inventory is a cost with no inflow

(d) two ways, each explained (K, App, An each):

- ask hotel customers to pay **sooner** (30 days, or a discount for early payment): inflows arrive earlier
- **trade credit** from suppliers: outflows move later
- keep less **inventory**, ordering flowers to match bookings
- a short-term loan for the slow months

(e) overdraft: (An)

- flexible; covers the small shortage in April quickly; but **interest**; the bank may cut the limit

trade credit: (An)

- **free**: matches outflows to the 60-day wait for hotels; but suppliers may refuse or charge more for a small florist; a late payment damages the relationship with essential suppliers

decision: (Ev) for example, ask suppliers for 30 days' credit, because the problem is a timing gap between paying cash and waiting 60 days; keep a small overdraft only as a back-up for April.

Level 3 (5–6): a justified decision for this business, weighing both sides. Level 2 (3–4): points explained and applied. Level 1 (1–2): points identified.