# 5.2 Cash-flow forecasting and working capital

Name: ______________ Class: __________ Date: ____________ **Total: 19 marks**

**KEY WORDS** net cash flow 净现金流 • closing balance 期末余额 • opening balance 期初余额 • working capital 营运资金 • inflows 流入

## Objective

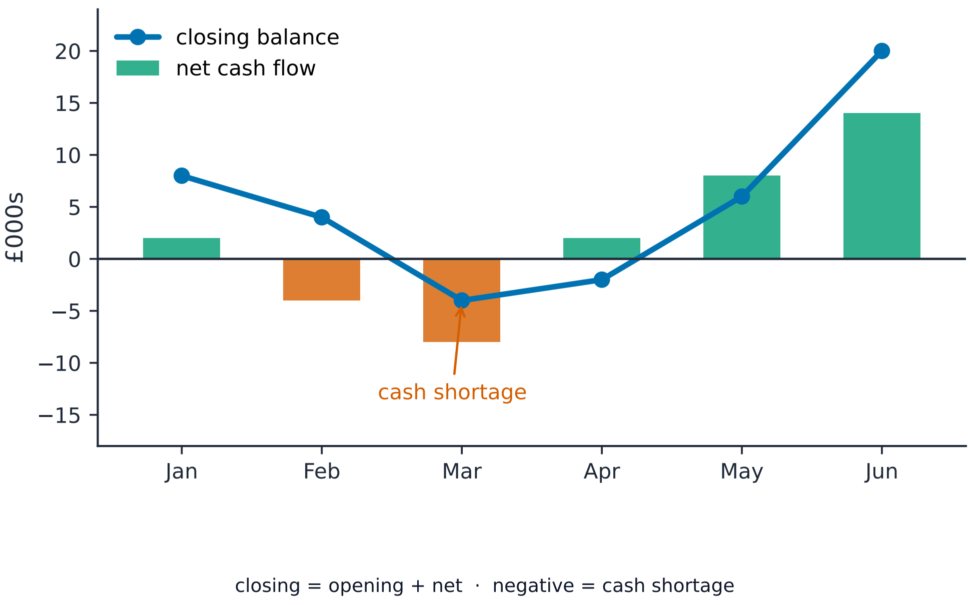
Build the skills to answer exam questions on **cash-flow forecasting and working capital** 现金流预测与营运资金 — why **cash is not profit** 现金不等于利润, the **cash-flow forecast** 现金流预测, and **working capital** 营运资金.

**You must be able to:**

- explain why a profitable business can run out of cash
- calculate net cash flow and the closing balance
- explain ways to solve a cash-flow problem

## 1 Worked examples

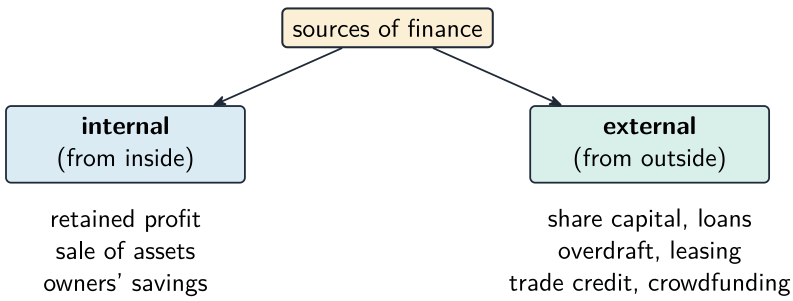
■ **A cash-flow forecast**




*Each month's closing balance carries forward to next month*

net cash flow = inflows − outflows  closing balance = opening balance + net cash flow

- **Worked:** inflows \$15,000, outflows \$11,000, opening \$3,000 → net = \$4,000, closing = \$7,000.
- **Cash ≠ profit:** a profitable firm can run out of cash if customers have not paid yet.
- **Working capital 营运资金** = current assets − current liabilities.
- **Solve a shortage:** arrange an overdraft, delay paying suppliers, ask customers to pay sooner, sell spare assets.




*External finance — an overdraft or short-term loan — is one way to cover a forecast cash shortage*

**Answer shapes:** K + App + An + Ev (a justified judgement, for "do you think" questions).

## 2 Practice

**2.1** Define the term *net cash flow*. [2]

**2.2** A month opens with $5,000. Inflows are $18,000 and outflows are $20,000. Calculate the closing balance. [2]

**2.3** State one reason a profitable business might run out of cash. [1]

## 3 Exam-style questions

**3.1** Identify two ways a business could solve a cash-flow problem. [2]

**3.2** Explain two benefits to a business of producing a cash-flow forecast. [6]

**3.3** A business has forecast a cash shortage next month. Do you think arranging an overdraft is the best way to solve it? Justify your answer. [6]