BUS.FI10 Cash-Flow Problems: Causes, Consequences and Solutions

AQA 8132 · Calculators not allowed · about 40 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Short answers may be single sentences; extended answers should use full sentences. Show your reasoning where asked. The printed case at question 1 is the main scenario used throughout this pack; necessary figures are repeated in later questions.

1 Coastline Cakes, a small bakery in Brighton run by Erin, sells celebration cakes to local customers and cafes. Recent seasonal demand peaks mean Coastline Cakes buys large amounts of sponge and decorations in advance. The bakery has long credit terms with some cafe customers who pay 45 days after delivery. Last month Coastline Cakes made an accounting profit but had only 1,200 pounds in the bank and faced a rent payment of 1,800 pounds due in five days. The supplier for baking ingredients is asking for payment now.
Which one of the following best describes why Coastline Cakes has a cash-flow problem even though it made an accounting profit last month?

- ☐ A) Profit includes non-cash items such as depreciation, and timing of cash receipts differs from recorded sales
- ☐ B) Making a profit always means the business has plenty of cash
- ☐ C) Cash and profit are the same, so this situation is impossible
- ☐ D) The business must have overstated revenue on purpose

(Total for Question 1 is 1 mark)

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2 Using the Coastline Cakes scenario above, which one of the following is a direct cause of its cash-flow problem?

- ☐ A) Long credit terms from suppliers
- ☐ B) Customers paying 45 days after delivery
- ☐ C) Paying rent on time
- ☐ D) Having a bank account

(Total for Question 2 is 1 mark)

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3 Identify two causes of cash-flow problems that are illustrated in the Coastline Cakes scenario above.

(Total for Question 3 is 2 marks)

4 Identify two possible consequences for Coastline Cakes if it cannot pay its supplier for ingredients this month.

(Total for Question 4 is 2 marks)

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5 State two short-term finance options Coastline Cakes could consider to cover the immediate shortfall before the rent payment, referring to the scenario.

(Total for Question 5 is 2 marks)

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6 Explain one way slow-paying customers, such as cafes that pay 45 days after delivery to Coastline Cakes, can affect the bakery's ability to pay its own bills. Use the scenario in your explanation.

(Total for Question 6 is 3 marks)

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7 Explain one reason why buying large amounts of stock in advance for seasonal peaks could cause cash-flow problems for Coastline Cakes, using the scenario.

(Total for Question 7 is 3 marks)

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8 Coastline Cakes considers asking its main supplier for extended trade credit, asking to pay in 30 days instead of immediately. Explain how negotiating extended trade credit with the supplier would help Coastline Cakes with the immediate cash-flow problem in this scenario.

(Total for Question 8 is 4 marks)

9 Coastline Cakes is also offered an arranged overdraft by its bank up to 3,000 pounds. Explain how arranging or extending an overdraft would help Coastline Cakes manage its cash-flow problem in the scenario, and one drawback of using an overdraft.

(Total for Question 9 is 4 marks)

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10 Coastline Cakes decides to tighten its credit control by asking cafe customers to pay within 30 days instead of 45 days. Explain one advantage and one possible drawback of this change for the bakery, using the scenario.

(Total for Question 10 is 3 marks)

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11 State two non-finance operational changes Coastline Cakes could make to reduce the chance of future cash-flow problems, referring to the scenario.

(Total for Question 11 is 2 marks)

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12 Which one of the following would be the least suitable long-term solution for Coastline Cakes if it regularly faces short-term cash shortages caused by slow customer payments and seasonal stock purchases?

- ☐ A) Tighten credit control and reduce payment terms for customers
- ☐ B) Build a larger bank overdraft that is used permanently
- ☐ C) Increase marketing to attract more regular customers
- ☐ D) Negotiate staggered payments with suppliers during peak buying

(Total for Question 12 is 1 mark)

13 Identify one internal record or document Coastline Cakes should prepare or review regularly to spot cash-flow problems early, referring to the scenario.

(Total for Question 13 is 1 mark)

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14 Explain how rescheduling loan repayments with a lender could help Coastline Cakes manage its cash-flow problem, and one disadvantage of rescheduling repayments, using the scenario.

(Total for Question 14 is 3 marks)

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15 Coastline Cakes currently has 1,200 pounds in the bank, a rent payment of 1,800 pounds due in five days, suppliers asking for payment now, and cafe customers who pay 45 days after delivery. Recommend the best solution or combination of solutions Coastline Cakes should use to resolve the immediate cash crisis and reduce the chance of a repeat. Justify your recommendation using the figures and circumstances in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.FI10 Cash-Flow Problems: Causes, Consequences and Solutions

Question 1

- **B1** A cao
- **Answer: A**

Question 2

- **B1** B cao
- **Answer: B**

Question 3

- **B1** slow-paying customers/long credit terms (customers pay 45 days)
- **B1** over-investment in stock or buying large amounts in advance because of seasonal peaks
- **Answer: Slow-paying customers (45 day terms) and buying large amounts of stock in advance for seasonal demand.**

Question 4

- **B1** supplier may stop supplying goods or repossess credit, causing production to halt
- **B1** loss of supplier goodwill or worse credit terms in future
- **Answer: Supplier may stop deliveries halting production, and Coastline Cakes may lose supplier goodwill or face stricter terms.**

Question 5

- **B1** arrange or extend an overdraft with the bank
- **B1** negotiate extended trade credit with the supplier or ask for a short-term loan from a lender
- **Answer: Arrange or extend an overdraft; negotiate extended trade credit or a short-term loan.**

Question 6

- **B1** identifies an effect, e.g. delayed cash inflows from sales
- **B1** develops the point, e.g. the bakery receives money only after 45 days, so it does not have the cash to pay immediate bills like rent or suppliers
- **B1** links to the scenario outcome, e.g. this explains why Coastline Cakes has only 1,200 pounds in the bank but a rent payment of 1,800 pounds due
- **Answer: Slow-paying cafes delay cash inflows so Coastline Cakes only receives money after 45 days, leaving it short to pay immediate bills such as the 1,800 pounds rent when it currently has 1,200 pounds in the bank.**

Question 7

- **B1** identifies a reason, e.g. cash tied up in stock
- **B1** develops the point, e.g. buying large amounts of sponge and decorations uses cash now before sales are made
- **B1** links to the scenario outcome, e.g. this reduces available cash so Coastline Cakes cannot pay immediate costs even if it will sell the cakes later
- **Answer: Buying large amounts of stock ties up cash in ingredients and decorations so that money is spent before sales are made, reducing available cash and contributing to having only 1,200 pounds when bills like rent and supplier invoices are due.**

Question 8

- **B1** states that extended trade credit delays cash outflows to the supplier
- **B1** explains that delaying payment frees up cash in the short term to cover urgent bills such as rent
- **B1** applies to the scenario, e.g. avoiding immediate payment to the supplier could allow the existing 1,200 pounds to be used for the 1,800 pounds rent or bridge the gap until customers pay
- **B1** notes a limitation or conditional benefit, e.g. benefit depends on the supplier agreeing and may worsen future supplier relations if repeatedly requested
- **Answer: If the supplier agrees to 30-day credit, Coastline Cakes can delay paying for ingredients, freeing short-term cash to help pay urgent bills like the 1,800 pounds rent or cover costs until cafes pay. This eases the immediate cash shortage, though it relies on the supplier agreeing and should not be abused or it could harm supplier relations.**

Question 9

- **B1** states that an overdraft provides short-term access to extra cash to cover immediate payments
- **B1** explains application to scenario, e.g. an overdraft of up to 3,000 could cover the 600 pound shortfall to pay rent now and allow time for customers to pay
- **B1** identifies a drawback, e.g. interest charges or bank fees
- **B1** explains drawback, e.g. interest increases costs and frequent use may lead to bank withdrawing the facility or higher charges
- **Answer: An overdraft gives quick short-term cash so Coastline Cakes could borrow up to 3,000 pounds to cover the 600 pound shortfall for rent and bridge the gap until customers pay. However, overdrafts attract interest and fees, raising costs, and repeated reliance can lead the bank to withdraw or reduce the overdraft facility.**

Question 10

- **B1** identifies advantage, e.g. faster cash inflows improve cash availability
- **B1** identifies drawback, e.g. customers may be unhappy and some may stop buying
- **B1** explains impact on scenario, e.g. faster payments could prevent the current shortfall but could risk losing some cafe accounts
- **Answer: Advantage: customers paying within 30 days brings cash in sooner, improving availability so the bakery is likelier to meet rent and supplier bills. Drawback: stricter terms may upset cafes, risking lost orders and lower sales, which could reduce long-term revenue.**

Question 11

- **B1** reduce stock purchases by ordering smaller, more frequent quantities
- **B1** diversify customer base to reduce reliance on a few cafes or reduce seasonal peaks
- **Answer: Order smaller, more frequent stock deliveries and diversify customers to reduce reliance on a few cafes or seasonal demand.**

Question 12

- **B1** B cao
- **Answer: B**

Question 13

- **B1** a cash-flow forecast or regular cash-flow statement
- **Answer: A cash-flow forecast or regular cash-flow statement.**

Question 14

- **B1** states that rescheduling reduces short-term repayment amounts or delays payments
- **B1** explains how this frees cash to cover urgent costs in the scenario, e.g. lower monthly payments free the 1,200 pounds for rent or suppliers
- **B1** identifies a disadvantage, e.g. it may increase total interest paid or lengthen debt period
- **Answer: Rescheduling would reduce or delay current loan repayments, freeing short-term cash so Coastline Cakes could use funds to pay rent or suppliers now. The disadvantage is it usually increases the total interest paid or extends the debt period, raising long-term costs.**

Question 15

- **Level 1** (1-3): Makes basic, undeveloped suggestions that do not use the scenario figures fully and gives little justification.
- **Level 2** (4-6): Presents a reasonable recommendation using some scenario figures, with some analysis of pros and cons, but evaluation is incomplete.
- **Level 3** (7-9): Weighs several appropriate options using the scenario figures, analyses their impacts on immediate cash and on future risk, and reaches a clear, justified recommendation or combination of actions.
- **Indicative content:**
  - Immediate actions could include arranging a short-term arranged overdraft to cover the 600 pound gap to pay rent now, or negotiating immediate extended trade credit with the supplier to delay payment until customers pay, or a short bridging loan.
  - Use figures: Coastline Cakes has 1,200 pounds but needs 1,800 pounds for rent, so an overdraft of at least 600 pounds or supplier agreement to defer payment by a few weeks would solve the immediate cash requirement.
  - Combining options is sensible, for example asking the supplier for 30 days and arranging a small overdraft as a safety buffer, so the bakery does not become dependent on the overdraft alone.
  - Medium-term changes should be recommended: tighten credit control to reduce customer payment terms from 45 to 30 days, order smaller quantities more frequently to avoid tying up cash in stock, and build a small cash reserve for seasonal peaks.
  - Evaluate trade-offs: overdraft gives quick access but costs interest and is not a long-term fix; negotiating with supplier avoids borrowing costs but relies on supplier agreement; tightening customer terms may risk losing some cafe clients.
  - A strong conclusion should balance short-term liquidity against long-term sustainability, recommending a mixed approach: immediate short-term finance or supplier negotiation to pay the rent this week, plus operational changes and credit-control improvements to reduce recurrence.