3.11 Cash Versus Profit and the Importance of Working Capital: 10-minute Pack

AQA 8132 · Calculators not allowed · about 10 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Write in full sentences for questions worth 3 marks or more. Show your working for any calculation. All businesses named in prompts are fictional.

1 Which one of the following is a component of working capital for a small retail business in the UK?

- ☐ A) Long-term bank loan
- ☐ B) Inventory of goods for sale
- ☐ C) Share capital
- ☐ D) Purchase of a delivery van

(Total for Question 1 is 1 mark)

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2 State two items that are subtracted when calculating working capital (current assets minus current liabilities) for a cafe like Erin's Coffee in Sheffield.

(Total for Question 2 is 2 marks)

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3 Identify two simple steps a small business owner could take to improve working capital in the short term, naming a hypothetical UK business in your answer.

(Total for Question 3 is 2 marks)

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4 Ridgeway Print Studio, a fictional business, sold £12,000 of printing work in June. Customers paid £3,000 of this in June and the rest will be paid in July. The studio's costs for June were £7,500, of which £5,500 was paid in June and the rest will be paid in July.

(a) Calculate the studio's profit for June. Show your working. **(2)**

(b) Calculate the change in the studio's cash during June. Show your working. **(2)**

(Total for Question 4 is 4 marks)

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Mark scheme · 3.11 Cash Versus Profit and the Importance of Working Capital: 10-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

trade payables, or supplier invoices due within a year **B1**

short-term bank overdraft, or other current liabilities such as tax payable **B1**

Answer: Any two current liabilities, e.g. trade payables (supplier invoices) and a short-term bank overdraft or tax payable.

Question 3

reduce inventory levels, e.g. a bakery ordering less stock **B1**

ask credit customers to pay sooner or offer small discounts for early payment, e.g. a graphic designer chasing invoices **B1**

Answer: Any two short-term steps, e.g. reduce inventory (a bakery orders less) and speed up customer payments by chasing invoices or offering early-payment discounts (a freelance graphic designer).

Question 4

(a) 12,000 - 7,500 seen **M1**

(a) £4,500 cao **A1**

(a) Answer: £4,500.

(b) 3,000 - 5,500 seen **M1**

(b) cash falls by £2,500 or -£2,500 cao **A1**

(b) Answer: Cash falls by £2,500 (-£2,500).

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