3.11 Cash Versus Profit and the Importance of Working Capital: Test Pack

Total Marks

AQA 8132 · Calculators not allowed · about 15 minutes

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 best explains why profit is different from cash for a business?

- ☐ A) Profit includes non-cash costs like depreciation while cash does not
- ☐ B) Cash equals profit plus retained earnings
- ☐ C) Profit only counts sales paid for in cash that day
- ☐ D) Cash is the same as profit when a business uses credit customers

(Total for Question 1 is 1 mark)

2 Define the term 'liquidity'.

(Total for Question 2 is 1 mark)

3 Callum runs a small event catering business and finds that his profit for the year is £14,000 but his cash at bank fell by £3,200. Which one of the following is the most likely short explanation?

- ☐ A) Callum's prices were too low
- ☐ B) Callum must have made a loss
- ☐ C) Callum paid for capital equipment during the year which used cash but did not reduce profit directly
- ☐ D) Profit and cash must always move in the same direction

(Total for Question 3 is 1 mark)

4 Calculate the working capital for Barnaby Bikes, a small cycle shop in Leeds. Current assets are £18,000 and current liabilities are £7,250. Show your working.

(Total for Question 4 is 2 marks)

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5 Explain briefly how a business that sells on 60-day credit terms could show a profit yet still struggle to pay its suppliers each month.

(Total for Question 5 is 2 marks)

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6 Explain one reason why a profitable business like Kwame's Carpentry could still run out of cash, referring to a typical UK small business situation.

(Total for Question 6 is 3 marks)

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Mark scheme · 3.11 Cash Versus Profit and the Importance of Working Capital: Test Pack

Question 1

A cao **B1**

Answer: A

Question 2

the ability of a business to pay its short-term debts and bills when they fall due (using cash or assets that can quickly be turned into cash) **B1**

Answer: The ability to pay short-term debts as they fall due.

Question 3

C cao **B1**

Answer: C

Question 4

18,000 - 7,250 seen **M1**

£10,750 cao **A1**

Answer: £10,750.

Question 5

identifies that sales are recorded as profit before cash is received, giving a timing difference **B1**

explains the effect, e.g. cash receipts arrive later so suppliers due sooner may not be paid on time **B1**

Answer: Sales on long credit are recorded as profit before cash arrives; because cash receipts lag, the business may not have cash available to pay suppliers who expect earlier payment.

Question 6

identifies a reason, e.g. many customers buy on credit so cash receipts lag behind recorded sales **B1**

develops the point, e.g. the business records profit at the time of sale but does not receive cash until customers pay later **B1**

links to an outcome, e.g. cash may be insufficient to pay suppliers or wages even though the business shows an accounting profit **B1**

Answer: If many customers buy on credit, sales are recorded as profit before cash is received; this delay means the business can show profit while lacking the cash needed to pay suppliers or staff.

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