# BUS.FI11 Cash Versus Profit and the Importance of Working Capital

AQA 8132 · Calculators not allowed · about 45 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 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** 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 2 is 1 mark)**

**3** 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 3 is 2 marks)**

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

**(Total for Question 4 is 2 marks)**

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**5** Calculate the working capital for Noor's Noodle Bar in Bristol. Current assets 6,400 pounds; current liabilities 9,100 pounds. Show your working and state whether it is positive or negative.

**(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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**7** Explain one other reason why a profitable business such as Priya's Petcare in Manchester might experience a cash shortage, using a short UK example.

**(Total for Question 7 is 3 marks)**

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**8** Which one of the following best describes working capital for a business such as a small online retailer in the UK?

- ☐ A) Current assets minus current liabilities
- ☐ B) Total assets minus total liabilities
- ☐ C) Net profit plus depreciation
- ☐ D) Cash in the bank only

**(Total for Question 8 is 1 mark)**

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**9** State two examples of current assets a florist like Amelia's Blooms would list when calculating working capital.

**(Total for Question 9 is 2 marks)**

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

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

**(Total for Question 10 is 1 mark)**

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**11** 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 11 is 2 marks)**

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**12** 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 12 is 2 marks)**

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**13** Which one of the following scenarios describes a liquidity problem, rather than a profit problem, for a small UK business named Stellar Shoes?

- ☐ A) Stellar Shoes made an accounting profit last year but cannot pay this month's supplier invoices because customers pay on 60-day credit terms
- ☐ B) Stellar Shoes consistently sells below cost leading to accounting losses
- ☐ C) Stellar Shoes has high depreciation charges reducing reported profit
- ☐ D) Stellar Shoes pays its owners large dividends, reducing retained profit

**(Total for Question 13 is 1 mark)**

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**14** Analyse whether Tamsin's Tailors, a small tailoring firm in York, is facing a profit problem or a liquidity problem. Tamsin's accounts show a profit of 12,000 pounds for the year. However, Tamsin currently has only 500 pounds in the bank. Most of her sales are to local wedding customers who pay 90 days after the order is delivered. She also holds a large amount of bespoke fabric in stock bought in advance for seasonal orders.
Write a short analysis and conclude whether this is mainly a profit problem or a liquidity problem, giving reasons based on the facts given.

**(Total for Question 14 is 6 marks)**

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**15** State two reasons why a business might deliberately accept a short-term negative working capital position, naming an example UK business.

**(Total for Question 15 is 2 marks)**

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**16** Maya owns a small print shop. In March she recorded sales of 4,200 pounds, of which 3,500 pounds were credit sales to a local business to be paid in April. Her cash in the bank at 1 March was 1,000 pounds. She paid 2,400 pounds to suppliers in March and 600 pounds in wages during March. Calculate Maya's cash in bank at 31 March. Show your working.

**(Total for Question 16 is 2 marks)**

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# Mark scheme · BUS.FI11 Cash Versus Profit and the Importance of Working Capital

### Question 1

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

### Question 2

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

### Question 3

- **B1** trade payables, or supplier invoices due within a year
- **B1** short-term bank overdraft, or other current liabilities such as tax payable
- **Answer: Any two current liabilities, e.g. trade payables (supplier invoices) and a short-term bank overdraft or tax payable.**

### Question 4

- **M1** 18,000 - 7,250 seen
- **A1** 10,750 pounds cao
- **Answer: 10,750 pounds.**

### Question 5

- **M1** 6,400 - 9,100 seen
- **A1** -2,700 pounds cao and states negative
- **Answer: -2,700 pounds, negative working capital.**

### Question 6

- **B1** 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
- **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.**

### Question 7

- **B1** identifies a reason, e.g. the business has large increases in inventory or other current assets that use cash
- **B1** develops the point, e.g. buying and holding stock ties up cash even if inventory is expected to be sold later
- **B1** links to an outcome, e.g. the business may be unable to meet short-term bills even while expecting profit when the stock is sold
- **Answer: Buying extra stock ties up cash in inventory; although the purchases may increase future profit when sold, the current cash outflow can leave the business short of cash to pay immediate bills.**

### Question 8

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

### Question 9

- **B1** cash or bank balance
- **B1** inventory, such as cut flowers or gift stock, or trade receivables from credit customers
- **Answer: Any two current assets, e.g. cash/bank balance; inventory such as flowers or gift stock; trade receivables from credit customers.**

### Question 10

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## Question 11

- **B1** 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
- **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 12

- **B1** 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
- **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 13

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

## Question 14

- **Level 1** (1-3): Provides a basic analysis that identifies timing or stock as an issue, or simply repeats the facts, with little linkage to profit versus liquidity and no clear conclusion.
- **Level 2** (4-6): Provides a clear analysis that links the 90-day credit terms and high stock levels to cash being tied up, contrasts this with the reported profit, and concludes that the firm has a liquidity problem, supported by evidence from the prompt.
- **Indicative content:**
  - The firm reports a profit of 12,000 pounds, so on accounting measures it is profitable rather than loss-making.
  - Having only 500 pounds in the bank while owing day-to-day costs suggests an inability to meet immediate payments, which is a liquidity issue.
  - Long customer credit terms of 90 days delay cash receipts, creating a timing gap between sales (which give profit) and cash collection.
  - Holding large amounts of bespoke fabric ties up cash in inventory until orders are completed and paid for, worsening cash availability.
  - Judgement: the evidence points to a liquidity problem rather than a profit problem, because the business is profitable on paper but lacks cash due to slow customer payments and high stock levels.

## Question 15

- **B1** to grow quickly by buying more stock or investing in marketing, e.g. a fashion start-up taking risks
- **B1** because suppliers offer long trade credit allowing the business to use cash for other strategic investment, e.g. an electronics retailer using supplier credit
- **Answer: Any two, e.g. a fashion start-up may accept negative working capital to grow quickly; an electronics retailer may use supplier credit to free cash for investment.**

## Question 16

- **M1** start cash 1,000 + cash sales 700 - payments (2,400 + 600) seen, where cash sales = 4,200 - 3,500 = 700
- **A1** -1,300 pounds cao
- **Answer: -1,300 pounds (overdrawn).**