3.4 Cash-flow forecasting: Test Pack

AQA 8132 · Calculator allowed · about 15 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show your working for every calculation: method marks are available even if your final answer is wrong. Bright Spark Electricals, used throughout this pack, is a fictional business.

1 Which one of the following best describes the purpose of a cash-flow forecast?

- ☐ A) It predicts a business's expected cash inflows and outflows over a future period
- ☐ B) It records a business's profit for the previous tax year only
- ☐ C) It shows the value of a business's non-current assets
- ☐ D) It calculates a business's break-even output

(Total for Question 1 is 1 mark)

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2 State two typical cash inflows for a retail business like Bright Spark Electricals.

(Total for Question 2 is 2 marks)

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3 State two typical cash outflows for Bright Spark Electricals.

(Total for Question 3 is 2 marks)

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4 State two reasons why a business prepares a cash-flow forecast.

(Total for Question 4 is 2 marks)

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5 State two consequences to Bright Spark Electricals of running out of cash, even if the business is profitable overall.

(Total for Question 5 is 2 marks)

6 Explain one reason why rapid sales growth (overtrading) can cause a cash-flow problem for a business, even though sales revenue is rising.

(Total for Question 6 is 3 marks)

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Mark scheme · 3.4 Cash-flow forecasting: Test Pack

Question 1

A cao **B1**

Answer: A

Question 2

cash sales to customers **B1**

receipts from credit customers, the owner's own capital introduced, or a loan received **B1**

Answer: Any two, e.g. cash sales; receipts from credit customers; owner's capital introduced; a loan received.

Question 3

paying suppliers for stock **B1**

paying wages, rent, utility bills, or loan repayments **B1**

Answer: Any two, e.g. paying suppliers; paying wages, rent, utility bills or loan repayments.

Question 4

to plan ahead and identify months where the business might run short of cash **B1**

to support a loan/finance application, e.g. to show a bank the business can manage its cash **B1**

Answer: Any two, e.g. to plan ahead/spot a future cash shortage; to support a loan or finance application.

Question 5

it may be unable to pay suppliers, staff or bills on time, damaging relationships or leading to legal action **B1**

in the worst case the business could be forced to close (insolvency) despite being profitable on paper **B1**

Answer: Any two, e.g. unable to pay suppliers/staff/bills on time; risk of insolvency despite being profitable on paper.

Question 6

identifies that rapid growth often means buying more stock and paying more wages/suppliers upfront, before credit customers have paid **B1**

develops the point, e.g. this widens the gap between cash going out and cash coming in **B1**

links clearly to an outcome, e.g. the business can run short of cash to pay its own bills even while sales, and eventual profit, are increasing **B1**

Answer: Rapid growth means paying more for stock/wages upfront before credit customers pay, widening the gap between cash out and cash in, so the business can run short of cash even as sales rise.

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