BUS.FI4 Cash-flow forecasting

AQA 8132 · Calculator allowed · about 65 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 Which one of the following is true of cash flow but NOT necessarily true of profit?

- ☐ A) It is calculated over a trading period such as a year
- ☐ B) It only counts money that has actually been received or paid out
- ☐ C) It can include sales made on credit that have not yet been paid for
- ☐ D) It is shown on a statement of comprehensive income

(Total for Question 2 is 1 mark)

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

(Total for Question 3 is 2 marks)

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

(Total for Question 4 is 2 marks)

5 State two typical cash outflows for Bright Spark Electricals.

(Total for Question 5 is 2 marks)

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6 Which one of the following best describes 'overtrading'?

- [ ] A) A business trading too rarely to survive
- [ ] B) A business expanding its sales too quickly without enough cash/finance to support the growth
- [ ] C) A business that only ever trades using cash, never credit
- [ ] D) A business that consistently makes a loss every year

(Total for Question 6 is 1 mark)

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7 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 7 is 3 marks)

8 Bright Spark Electricals, a fictional electrical retailer, forecasts the following cash inflows and outflows for its first four months of trading.

Month	Opening balance (pounds)	Total cash inflows (pounds)	Total cash outflows (pounds)	Net cash flow (pounds)	Closing balance (pounds)
January	1,500	7,000	6,300	(a)	(b)
February	(c)	6,200	7,000	(d)	(e)
March	(f)	8,500	6,900	(g)	(h)

Calculate the value of each missing figure, (a) to (h). Show your working.

(a) Calculate the missing net cash flow for January. **(1)**

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(b) Calculate the missing closing balance for January. **(1)**

....

(c) Calculate the missing opening balance for February. **(1)**

....

(d) Calculate the missing net cash flow for February. **(1)**

....

(e) Calculate the missing closing balance for February. **(1)**

....

(f) Calculate the missing opening balance for March. **(1)**

....

(g) Calculate the missing net cash flow for March. **(1)**

....

(h) Calculate the missing closing balance for March. **(1)**

....

(Total for Question 8 is 8 marks)

9 Bright Spark Electricals' April opening balance is 3,000 pounds (March's closing balance, question 8h). In April it forecasts cash inflows of 7,800 pounds and cash outflows of 8,100 pounds.
Calculate Bright Spark Electricals' closing balance for April. Show your working.

(Total for Question 9 is 3 marks)

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10 Bright Spark Electricals wants to maintain a minimum closing cash balance of 2,000 pounds each month as a safety buffer. Using your answers to question 8, state which month's closing balance falls below this 2,000 pounds target, and calculate by how much. Show your working.

(Total for Question 10 is 3 marks)

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11 Explain one action Kofi, the owner of Bright Spark Electricals, could take in January or February to try to avoid the business's cash balance falling below its 2,000 pounds target in February.

(Total for Question 11 is 3 marks)

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12 Other than negotiating supplier payment terms, state two other methods Bright Spark Electricals could use to improve its cash-flow position.

(Total for Question 12 is 2 marks)

13 Bright Spark Electricals' statement of financial position shows current assets (cash, inventory and trade receivables) of 9,400 pounds and current liabilities (trade payables and an overdraft) of 5,600 pounds.

(a) Calculate Bright Spark Electricals' working capital. Show your working. **(2)**

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(b) State what a positive working capital figure, as calculated in part a, tells us about Bright Spark Electricals' short-term liquidity. **(2)**

(Total for Question 13 is 4 marks)

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

(Total for Question 14 is 2 marks)

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15 Bright Spark Electricals' cash-flow forecast (questions 8-9) shows its closing balance dips below its 2,000 pounds target in February, falling to 1,400 pounds, a shortfall of 600 pounds (question 10), even though the business has positive working capital of 3,800 pounds (question 13a) and a positive net cash flow in three of the four months.
Recommend what Kofi should do about the February shortfall. Justify your answer using the figures given in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.FI4 Cash-flow forecasting

Question 1

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

Question 2

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

Question 3

- **B1** 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
- **Answer: Any two, e.g. to plan ahead/spot a future cash shortage; to support a loan or finance application.**

Question 4

- **B1** cash sales to customers
- **B1** receipts from credit customers, the owner's own capital introduced, or a loan received
- **Answer: Any two, e.g. cash sales; receipts from credit customers; owner's capital introduced; a loan received.**

Question 5

- **B1** paying suppliers for stock
- **B1** paying wages, rent, utility bills, or loan repayments
- **Answer: Any two, e.g. paying suppliers; paying wages, rent, utility bills or loan repayments.**

Question 6

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

Question 7

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

Question 8

- (a) **B1** 700 pounds cao
- **(a) Answer: 700 pounds.**
- (b) **B1** 2,200 pounds cao (ft from part a)
- **(b) Answer: 2,200 pounds.**
- (c) **B1** 2,200 pounds cao (ft from part b: a month's opening balance equals the previous month's closing balance)
- **(c) Answer: 2,200 pounds.**
- (d) **B1** negative 800 pounds cao (accept '(800 pounds)')
- **(d) Answer: negative 800 pounds.**
- (e) **B1** 1,400 pounds cao (ft from parts c and d)
- **(e) Answer: 1,400 pounds.**
- (f) **B1** 1,400 pounds cao (ft from part e)
- **(f) Answer: 1,400 pounds.**
- (g) **B1** 1,600 pounds cao
- **(g) Answer: 1,600 pounds.**
- (h) **B1** 3,000 pounds cao (ft from parts f and g)
- **(h) Answer: 3,000 pounds.**

Question 9

- **M1** 7,800 - 8,100 seen (= negative 300 pounds)
- **M1** 3,000 + (-300) seen
- **A1** 2,700 pounds cao
- **Answer: 2,700 pounds.**

Question 10

- **B1** February identified
- **M1** 2,000 - 1,400 seen
- **A1** 600 pounds cao
- **Answer: February, by 600 pounds.**

Question 11

- **B1** identifies an action, e.g. negotiate longer payment terms with a supplier for some of the outflows due in February
- **B1** develops the point, e.g. this pushes some cash outflow into a later month
- **B1** links clearly to an outcome, e.g. keeping more cash available in February, helping the balance stay above the 2,000 pounds minimum target
- **Answer: Negotiate longer payment terms with a supplier so some February outflow is delayed, keeping more cash available and helping the balance stay above the 2,000 pounds target.**

Question 12

- **B1** offer customers a discount for early payment, or chase up overdue customer payments
- **B1** arrange a short-term bank overdraft or loan to cover the shortfall
- **Answer: Any two, e.g. offer early-payment discounts/chase late payers; arrange a short-term overdraft or loan.**

Question 13

- (a) **M1** 9,400 - 5,600 seen
- (a) **A1** 3,800 pounds cao
- **(a) Answer: 3,800 pounds.**
- (b) **B1** the business has enough short-term (current) assets to cover its short-term (current) liabilities/debts
- (b) **B1** this means it should, in the short term, be able to pay its bills as they fall due (good short-term liquidity)
- **(b) Answer: Current assets exceed current liabilities, so the business should be able to pay its short-term bills as they fall due.**

Question 14

- **B1** 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
- **Answer: Any two, e.g. unable to pay suppliers/staff/bills on time; risk of insolvency despite being profitable on paper.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the shortfall, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for one option, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for different responses to the shortfall, using the forecast and working-capital figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - The shortfall is relatively small (600 pounds) and temporary, recovering strongly in March (net cash flow of 1,600 pounds, question 8g), and the business holds positive working capital of 3,800 pounds overall, suggesting the underlying business is not in serious financial difficulty.
  - Low-cost, no-new-borrowing options such as delaying a February supplier payment (question 11) or chasing early customer payment (question 12) may be enough to close a gap of only 600 pounds without taking on new finance or interest costs.
  - Against relying only on delaying payments: suppliers may not agree, or repeated delays could damage the relationship, so a small short-term overdraft may be a more reliable safety net for the gap.
  - A full bank loan is unnecessary and disproportionate for a temporary 600 pounds dip that reverses within one month, given March's forecast net cash flow of 1,600 pounds.
  - Judgement: a reasonable recommendation is that Kofi arranges a small short-term overdraft facility (e.g. covering the 600 pounds gap) as a low-cost safety net for February, while also trying to negotiate better payment timing with suppliers, rather than seeking a larger, more expensive loan for what the forecast shows is a brief, one-month dip.