

Cash Flow forecasts

Q1	Fill in the gaps
	<p>Cash flow looks at the inflow and outflows of cash into a business over a period of time. To improve cash flow a firm needs to either increase cash _____ or decrease cash _____ or a combination of the two. Firms may look closely at _____ which is money owed to others e.g. suppliers. Additionally firms will look at _____ which is money owed to the business e.g. from customers who have bought on credit. Though a large amount of money being owed to a business may sound good, it can lead to problems if people do not pay on time or never/are unlikely to pay (known as _____ debts).</p>
	<i>Choose from: payables, receivables, bad, inflows, outflows</i>

Q2	Identify whether these changes would improve or worsen a firm's cash flow.
	<p>2.1 A business gets an overdraft</p> <p>2.2 The business allows customers longer to pay.</p> <p>2.3 The business is given a loan from the bank.</p> <p>2.4 Suppliers extend their period of trade credit offered to the business.</p> <p>2.5 Petrol prices fall, reducing costs.</p> <p>2.6 A business sells an asset it no longer needs.</p>

Q3	Benefits or Limitations of cash flow forecasts? – put a B or L next to each statement below
	<p>3.1 It can identify potential cash flow problems in advance</p> <p>3.2 It can help avoid the possibility of insolvency</p> <p>3.3 Changes in the economy can affect sales predictions and cost forecasts</p> <p>3.4 New competition can dramatically change predicted sales figures</p> <p>3.5 It can provide ideas for how to improve liquidity e.g. leasing rather than buying assets</p> <p>3.6 Can provide evidence for loan or investment requests</p> <p>3.7 Can be based on inaccurate market research e.g. an unrepresentative sample</p> <p>3.8 Can show the owners when an overdraft would be required</p> <p>3.9 A change in consumer tastes would make sales forecasts unrealistic</p>

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Q4	Explain why
	<p>4.1 An overdraft might be useful to a farmer supplying a supermarket chain</p> <p>4.2 Sales forecasts can be inaccurate</p> <p>4.3 Lenders will usually want to see a cash flow forecast in a business plan</p>

Q5

Amend the cash flow forecast below to show the impact of a £300 bank loan being received in March.

	January	February	March	March Amended
Cash inflows	150	100	50	
Cash outflows	150	150	150	
Net cash flow	0	(50)	(100)	
Opening balance	25	25	(25)	
Closing balance	25	(25)	(125)	

Was arranging for a bank loan in March a suitable solution to this firm's cash flow problems?