**Topic 3.4 Forecasting Cash Flows: Activity**

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1. **Complete the following cash flow forecast:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(£)** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| **Receipts** | **4,000** | **5,000** | **5,000** | **4,000** | **6,000** | **7,000** |
| **Payments** | **3,000** | **4,000** | **7,000** | **5,000** | **4,000** | **3,000** |
| **Net Cash Flow** |  |  |  |  |  |  |
| **Opening Balance** | **0** |  |  |  |  |  |
| **Closing Balance** |  |  |  |  |  |  |

1. **Complete the following cash flow forecast:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(£)** | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **Jun** |
| **Receipts** | **5,000** | **4,000** | **7,000** | **3,000** | **6,000** | **7,000** |
| **Payments** | **2,000** | **6,000** | **4,500** | **5,000** | **4,000** | **2,000** |
| **Net Cash Flow** |  |  |  |  |  |  |
| **Opening Balance** | **0** |  |  |  |  |  |
| **Closing Balance** |  |  |  |  |  |  |

1. **Explain THREE uses and limitations of a cash flow forecast:**

|  |  |
| --- | --- |
| **Uses:** | **Limitations:** |
|  |  |
|  |  |
|  |  |

1. **Read the following passage and answer the questions below:**

Aziz Duah decided to set up a business selling printed t-shirts. He researched the market and found that there was no-one in the area offering this service. He thought that selling to businesses or to up and coming bands for their fans would be successful. Aziz would offer to design and print t-shirts with their own designs. He would begin trading in September. His sales forecast included the following information.

**Receipts:**

* September £14,000, October £15,000, November £18,500 and December £19,500

**Payments:**

* Machinery and office equipment are £9,000 in September.
* Wages are £5,000 in September and October and £10,000 in November and December.
* Heating and lighting are £1,000 a quarter. The first payment is October.
* Other costs are £2,200 a month.
* Materials are £2,000 a month in September, October and November. In December Aziz plans to arrange a 30 day payment period for materials.
* Insurance is £3,500 for the year, payable in October.
* There is no opening cash balance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **(£)** | **Sep** | **Oct** | **Nov** | **Dec** |
| **Total Receipts** | 14,000 | 15,000 | 8,500 | 19,500 |
| **Payments** |  |  |  |  |
| Machinery | 9,000 | 0 | 0 | 0 |
| Wages | 5,000 | 5,000 | 10,000 | 10,000 |
| Heating & Lighting | 0 | 1,000 | 0 | 0 |
| Other Costs | 2,200 | 2,200 | 2,200 | 2,200 |
| Materials | 2,000 | 2,000 | 2,000 | 0 |
| Insurance | 0 | 3,500 | 0 | 0 |
| **Total Payments** | 18,200 |  | 14,200 | 12,200 |
| **Net Cash Flow** |  | **1,300** | **4,300** |  |
| **Opening Balance** | **0** | **(4,200)** | **(2,900)** | **1,400** |
| **Closing Balance** | **(4,200)** | **(2,900)** |  | **8,700** |

**Questions:**

1. Calculate the missing figures in the table. (**4**)
2. Explain why the business has a cash flow problem in September but not December. (**6**)
3. Aziz is thinking of taking out a long-term loan to improve cash flow. Do you think he should do this? Justify your answer. (**6**)