

# **Business Studies**

# **Knowledge Book**

**Student name:** .....

**Form:** .....

**Subject:** .....

**Year group:** .....

## **Component 3: Promotion and Finance for Enterprise**

### **Learning Aim C:**

**Financial planning and forecasting**

The Big Question

**What are the effects of positive and negative cash flow on an enterprise?**

## GRADE DESCRIPTORS

To achieve a grade, a learner is expected to demonstrate these attributes across the essential content of the component. The principle of best fit will apply in awarding grades.

**Level 1 Pass** Learners demonstrate basic knowledge of the elements of promotion and financial records. They can make basic observations about given information and can identify different promotional and financial factors that have positive or negative impacts. They demonstrate a basic ability to interpret information to identify factors that could potentially affect the performance of an enterprise, such as relevant information from cash flow forecasts and statements. Learners are able to make basic recommendations for success.

**Level 2 Pass** Learners demonstrate knowledge and understanding of the elements of promotion and financial records and apply them in context. They are able to interpret given information to explain factors that could potentially affect the performance of an enterprise, including the impact of specific factors such as information from cash flow forecasts and statements. They can explain how different factors have positive or negative impacts. Learners can produce some realistic recommendations for success.

**Level 2 Distinction** Learners demonstrate a high level of knowledge and understanding of the elements of promotion and financial records and apply them in context. They demonstrate a high level of ability to interpret given information and can explain, in detail, the factors that could potentially affect the success of an enterprise, and how different promotional and financial factors have positive and negative impacts. Learners can produce clear recommendations for success, with clear, realistic and convincing justifications.

## **C Financial planning and forecasting**

**Learners will complete cash flow forecasts, and investigate the effects of positive and negative cash flow on an enterprise.**

### **C1 Using cash flow data**

- Cash – liquid assets of the business; bank balance plus cash in the business.
- Cash flow – difference between the cash flowing into the business (inflows) and the cash flowing out of the business (outflows), positive and negative liquidity.
- Difference between sales and purchases.
- Cash flow statement: the cash inflows and the cash outflows over the past 12 months.
- Cash flow forecast: outlines the forecasted future cash inflows (from sales) and the outflows (such as raw materials, wages) per month over a period of time.

### **C2 Financial forecasting**

- Purpose of a cash flow forecast:
  - to identify money coming in (inflows) and going out (outflows) of the enterprise over time
  - to determine net current asset requirements and make business decisions.
- Inflows: sales, capital introduced, loans.
- Outflows: purchases, running costs.

### **C3 Suggesting improvements to cash flow problems**

- Analysis of cash flow information – considering changes in inflows and outflows over a period and how this affects the enterprise, considering differences between predicted and actual cash flow.
- Cash flow problems – not having enough cash to pay employees and suppliers.
- Impact of timings of inflows and outflows, and suggested solutions to problems:
  - increasing revenue
  - selling off unused assets
  - selling off inventory
  - chasing debtors for monies owed
  - cutting costs
  - delaying payment to suppliers
  - reducing credit period offered to customers
  - cutting back or delaying expansion plans.

## Key Terms

# CASH FLOW FORECAST

Cashflows in



Cashflows out

A cash flow forecast is a plan and predicts/forecasts how much money a business expects to receive in (inflow/revenue) and pay out (outflow/costs).

It helps to Plan future **cash** requirements to avoid a crisis of **liquidity**. Cash (is a liquid asset) or other assets that can be easily converted into cash (liquidated).

**Cash** flow forecasting is important because if a business runs out of **cash** and is not able to obtain new finance, it will become **insolvent** (unable to pay debts, therefore become bankrupt).

## Question



Describe the word 'costs.'

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# Cash Inflow

- This is money that the business receives
- There are 4 main places that money will come from:
  - **Sales revenue** – received from customers
  - **Grants** – received from government
  - **Capital** – from the sale of assets e.g. machinery
  - **Loans** – received from banks and other lenders



## ACTIVITY

Explain the term cash inflow.

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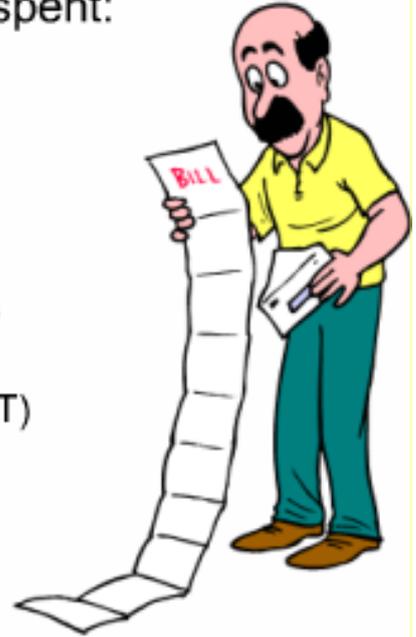
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Select two examples of a cash INFLOW

- a. Product sales
- b. Sale of assets
- c. Stock purchases
- d. Receipt of a loan

## Cash OUTFLOW

- This is money that the business spends
- There are 7 main ways that money will be spent:
  - **Wages and Salaries** – to pay for staff
  - **Raw materials** – to make products
  - **Utilities** (Gas, electricity, water and telephone)  
– needed to run the business
  - **Rent and business rates** – to pay for premises
  - **Interest** – on money that has been borrowed
  - **Tax** – on profits (corporation) and spending (VAT)
  - **Equipment** – used to make products



### Activity

Select one example of a cash OUTFLOW

- a. Payment to creditors
- b. Sale of assets
- c. Stock purchases
- d. Receipt of a grant

## Cash Flow Forecast

	December	January	February
Total inflows 😊	£550	£250	£280
Total outflows 😞	£485	£400	£375
New inflow/outflow	£65	(£150)	(£95)
Opening balance	£100	£165	£15
Closing balance	£165	£15	(£80)

**New inflow/outflow:** This is the amount that you will have left after you have taken away your outflows from your inflows.

**Opening balance:** How much money you have at the beginning of the month in your bank account.

**Closing Balance:** How much money you have in your account at the end of this month). The New inflow/outflow is ADDED to the opening balance.

### Activity

1. Calculate the new inflow/outflow for December if the inflow increased to 100,000

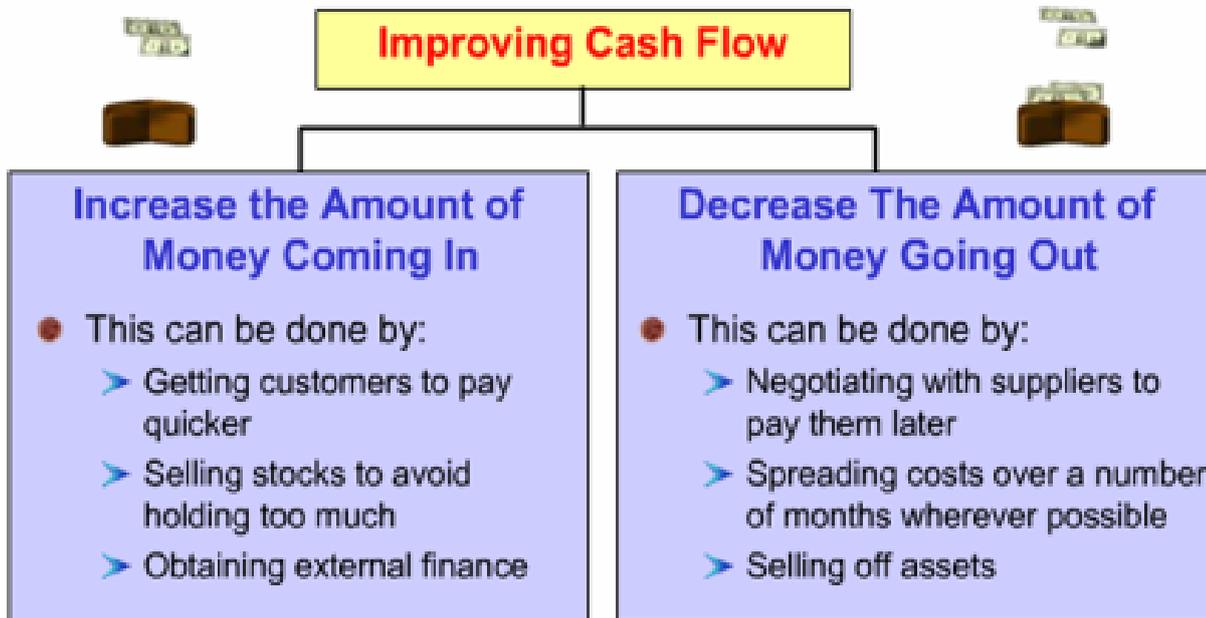
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2. What is the new closing balance?

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## How can Cashflow be improved?

- This depends upon the cause of the cash flow problem
- There are essentially **TWO** ways to improve cash flow:



Explain two solutions that would improve the negative closing balances in a cash flow forecast.

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## Application Phase

Jasmina wants to know if she has enough cash to increase her promotional budget to help her enterprise grow. She has started to complete a cash flow statement for the past year.

**Complete the cash flow statement.**

	October (£)	November (£)	December (£)	
<b>Cash inflows</b>				
Regular domestic gardening customers	1 400	1 200	(v) .....	(1)
Additional domestic gardening jobs	(i) .....	600	400	(1)
Total inflows	2 100	1 800	1 500	
<b>Cash outflows</b>				
Total outflows	(ii) .....	1 200	1 100	(1)
<b>Net cash flow</b>	800	(iv) .....	400	(1)
Opening balance	300	1 100	(vi) .....	(1)
Closing balance	(iii) .....	1 700	2 100	(1)

(Total for Activity 3 = 8 marks)

# Consolidation Phase

## Activity

Before offering gardening services to new business customers, Jasmina would need to update her gardening equipment. She is also aware that business customers would expect to pay their invoices 30 days after the work is completed.

She has created a cash flow forecast to see if this will create any cash flow problems in the future.

**Cash flow forecast for JSG Ltd**

	March (£)	April (£)	May (£)
<b>Cash inflow</b>			
Cash sales from domestic customers	2 700	2 800	3 700
Credit sales from business customers	0	3 600	6 300
<b>Total inflow</b>	2 700	6 400	10 000
<b>Cash outflow</b>			
Purchase of Inventory	1 600	3 200	3 700
Staff wages	900	900	1 200
Purchase of new equipment	12 000	0	0
Other costs	2 750	3 640	3 730
<b>Total outflow</b>	17 250	7 740	8 630
<b>Net cash flow</b>	-14 550	-1 340	1 370
Opening balance	5 400	-9 150	-10 490
Closing balance	-9 150	-10 490	-9 120

Jasmina has forecast that the enterprise would have a negative closing balance in each month. (a) Explain two solutions that would improve the negative closing balances that Jasmina has forecast for her enterprise.

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Tyler knows that cash flow is an important part of the survival of any enterprise. He has started to produce cash flow forecasts for his expanded business.

State what is meant by the term 'cash flow forecast'.

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(b) Complete the cash flow forecast.

	June £	July £	August £	
<b>Cash inflows</b>				
Wedding photographs	1 970	2 910	3 420	
Other photographs	1 310	(i) .....	1 210	(1)
Total inflows	3 280	4 050	4 630	
<b>Cash outflows</b>				
Salary	1 000	1 000	1 000	
Purchase of equipment	3 200			
Other costs	1 160	1 280	1 940	
Total outflow	5 360	(ii) .....	2 940	(1)
<b>Net cash flow</b>	-2 080	1 770	(iii) .....	(1)
Opening balance	420	-1 660	110	
Closing balance	-1 660	110	1 800	

Tyler's business is facing a negative net cash flow in June of –£2 080.

Complete the table by:

- in column A, giving two solutions that Tyler could use to improve the negative net cash flow in June
- in column B, stating one reason why each solution in column A will improve the negative net cash flow.

A – Solution	B – Why this will improve the negative net cash flow?
1.	
2.	

## The Big Question

What are my questions an enterprise needs to ask when it is completing a Cash Flow Forecast?

2. Which month has the highest outflows?

1. How do I improve the negative cash flow in enterprise?

3. Are my outflows higher than my inflows?

# Next Lesson

I'm greedy for knowledge – I always want more, tell me how to increase inflows and how to reduce outflows.