

International
Preparation Course in Business
Business Finance module
LO2 session

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Aims and objectives for today's session

- Explain LO2 of the finance module
- Provide some teaching and learning resource ideas
- Answer any questions on LO2
- Set homework/assessment task

Course handbook

Prepare a <u>12 month</u> cash flow forecast to enable an organisation to manage its cash	Analyse the cash flow problems a business might experience	Justify actions a business might take when experiencing cash flow problems
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2. Be able to prepare a cash flow forecast

- Cash flow forecast: structure; timescale; credit periods; receipts (cash sales, debtors, capital, loans, other income); payments (cash purchases, trade creditors, revenue expenditure, capital expenditure, Value Added Tax (VAT)); opening and closing cash/bank balances
- Cash flow management: problems within the cash flow forecast eg insufficient cash to meet payments due; solutions eg overdraft arrangements, negotiating terms with creditors, reviewing and rescheduling capital expenditure

LO2 - Cash flow forecasting - key questions

What is cash flow in business?

What is a cash flow forecast?

What are typical reasons for cash flow problems in business?

What are typical solutions to cash flow problems?

What are the benefits of creating a cash flow forecast?

What are the limitations of cash flow forecasting?

Start the lesson with a quote or interesting fact,
discuss with your students

For example:

‘Cash flow is king. Profit is sanity. Turnover
is vanity.’

Theo Paphitis, a British Greek-Cypriot retail tycoon and entrepreneur, best known for his appearances on the BBC business programme Dragons' Den and as former chairman of Millwall Football Club. Paphitis has made the majority of his fortune in the retail sector.

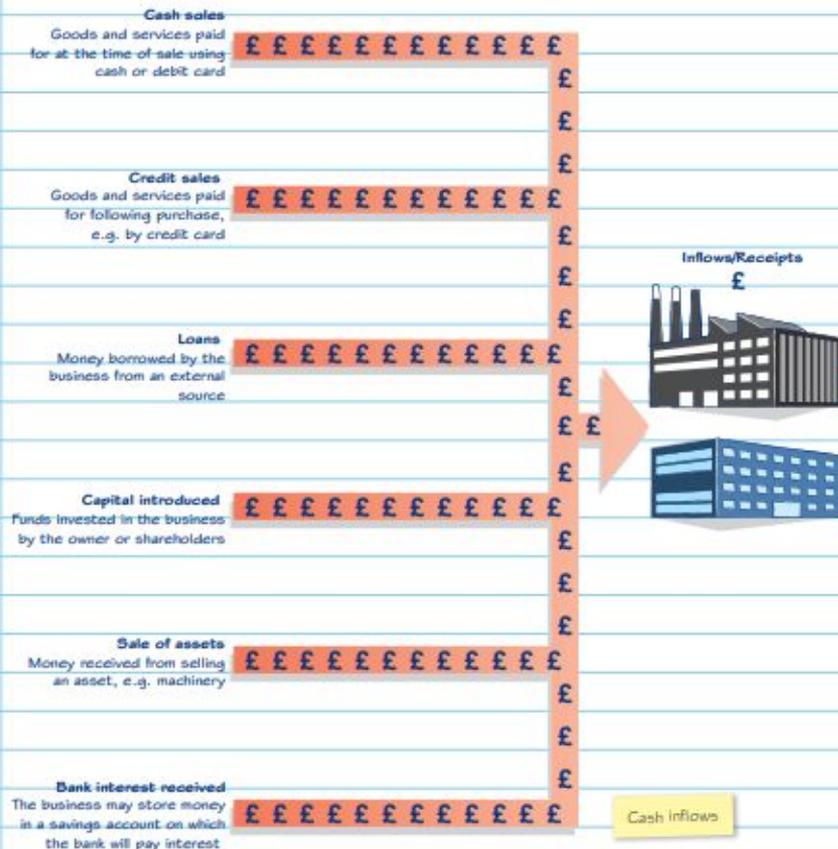


Follow with some useful definitions

- Cash flow
- Cash flow forecast
- Cash inflows
- Cash outflows
- Opening balance
- Closing balance
- Net cash flow (also known as 'cash surplus')

Cash inflows

Cash flow forecasts aim to predict the money flowing in and out of a business to ensure it stays solvent. On this page, you will revise inflows or receipts coming into a business.



Possible student task

Now try this

A business had cash sales of £25 000 in May. In the same month it spent £15 000 on raw materials. It began the month with an opening balance of £5000. Rent, rates and other running expenses were £2000. Identify the cash inflows.



Work out which of the figures are actually inflows and not outflows.

Answer to task:

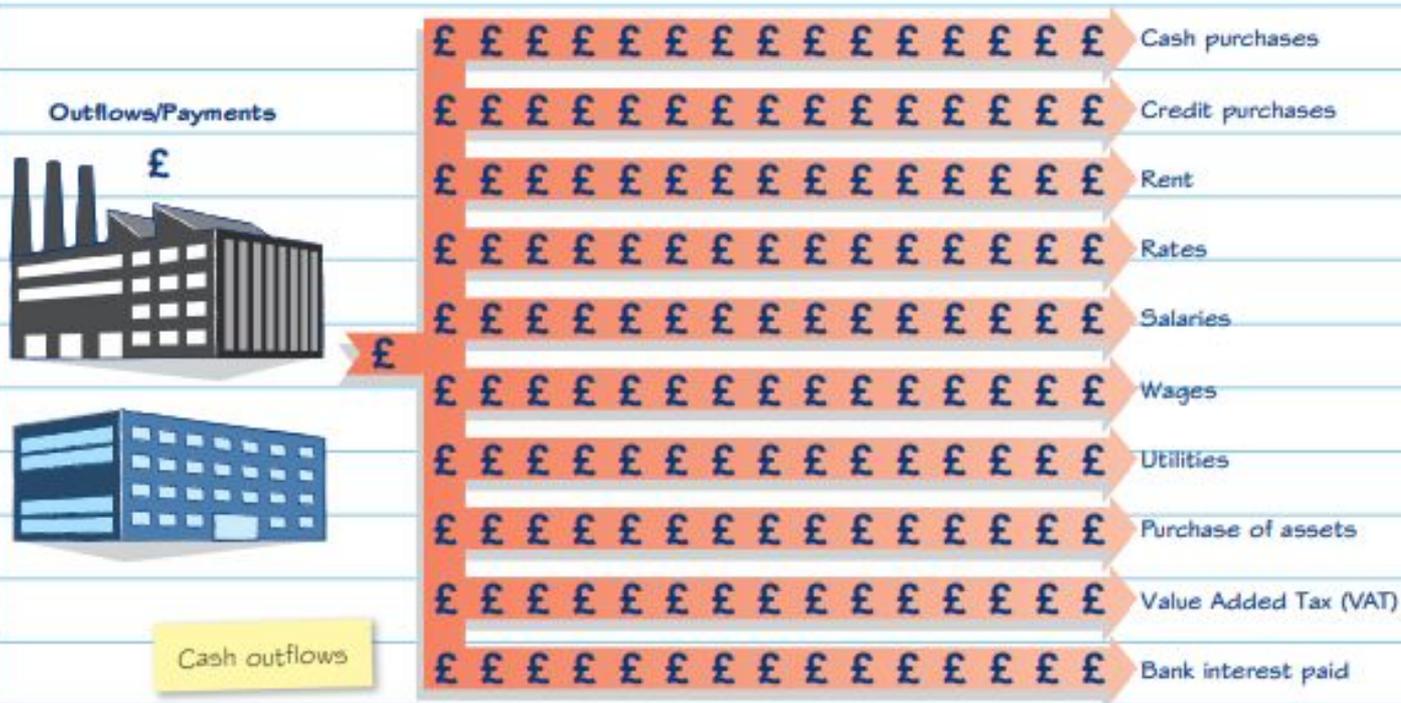
Cash inflows £25,000

Cash outflows £15,000 and £2,000

The opening balance of £5000 is neither an in- nor an outflow.

Cash outflows

On this page, you will revise outflows or payments going out of the business.



Cash and credit purchases

Anything a business buys is an outflow whether it is for use by the business or for resale, e.g. raw materials, stationery.

Rent, rates, salaries, wages and utilities

These are all regular outflows. The business must have cash to cover these.

Purchase of assets

These are small and large expenditures on items, from computer printers and telephones to vehicles and expensive machinery and buildings.

VAT

Value Added Tax is charged on most goods and services. A business must be registered for VAT if its sales go over the VAT threshold (£85 000 in 2017). The business adds VAT on to the cost of its goods and services.

Possible student task

Now try this

Adejola runs a second-hand furniture business. He buys a table and five chairs in August for £110 cash. The following day he agrees to sell them to a regular customer at £40 for each chair and £95 for the table. However, the customer can only pay him half in cash straightaway and the remainder in September. A week later Adejola buys another six chairs for £140 and sells them to the same customer for £35 each. The customer pays the balance of the first purchase and promises to pay Adejola for the six chairs in October. Calculate how much Adejola receives from the customer by the end of September.



Carefully work out how much money Adejola receives from the customer, stage by stage.

Answer to task

Cash inflows

Five chairs sold at £40 each $4 \times £40 = £200$

Plus table sold for £95 $£200 + £95 = £295$

this is the total cash inflow up to September, customers only pays half in August (£147,50), the other half in September.

Six chairs sold in September at £35 each $6 \times £35 = £210$
but money not received until October.

Cash outflows

£100 in August

£140 in September

	Aug	Sep	Oct
opening balance	0.00	37.50	45.00
cash inflows			
cash sales	147.50		
credit sales		147.50	210.00
Total cash inflows	147.50	147.50	210.00
cash outflows			
cash purchases	110.00	140.00	0.00
Total cash outflows	110.00	140.00	0.00
net cash flow	37.50	7.50	210.00
closing balance	37.50	45.00	255.00

Cash flow forecasts

Cash flow forecasts are used by businesses to identify potential problems with cash flow. This will enable them to plan, monitor and control spending more effectively.

Format of forecast

Opening bank balance

Itemised receipts or cash inflows

Total of receipts added to opening balance

Itemised list of payments

Total of payments or cash outflows – this is then deducted from the total of the receipts

Closing balance – this is calculated by adding the net cash flow and opening balance together. This becomes the opening balance for the following month

Entering data

It pays to be systematic when constructing a cash flow forecast, as it is important for the figures to be correct.

Consider:

- ✓ Are the figures realistic?
- ✓ What do the figures actually show?

How could potential cash flow problems be resolved?

	January	February	March
Opening Balance			
Receipts from sales			
Receipts from rent			
Total receipts (inflows)			
Total cash available			
Premises			
Energy			
Wages			
Suppliers			
Total payments (outflows)			
Net cash-flow (inflows - outflows)			
Closing balance			

Structure of a cash flow forecast

- **Opening balance** =
- Cash available to the business at the **beginning** of the month
- **Total inflows** =
- Sum of all cash coming into the business during that month
- **Total cash available** =
- Opening balance + total cash in
- **Total outflows** =
- Sum of all cash going out of the business during that month
- **Net cash flow (or 'cash surplus')** =
- Total inflow minus total outflows (can be positive or negative)
- **Closing balance** =
- Cash available to the business at the **end** of the month
- Opening balance + net cash flow

Note

- Timings of in- and outflows of cash are crucial to any business' survival
- A cash flow forecast is **not** required by law, but a useful tool for financial planning and securing finance
- Structure of cash flow forecast can differ slightly
 - 'total cash available' and 'net cash flow' sometimes left out
 - 'opening balance' can be inserted in the lower section

Planning

Monitoring

Uses of cash-flow forecasts

Control

Target setting

The flow of cash into and out of a business has to be carefully managed. Having too little cash means that suppliers, and even employees, may not be paid on time.

Profit and cash

Businesses selling lots of products and services may have major cash flow problems. If the business is selling products and services and recording them as being sold they may be short of cash if they have sold them on credit as they will not have yet received the money. They will need to replace the inventory but as they have not been paid for items they have already sold, they may not have funds to do this.

Benefits and limitations

Cash flow forecasts should help the business predict when they might have cash flow problems. If the business has predicted and planned for its financial needs, then banks may extend overdrafts or offer loans.

Cash flows fail to consider that a business can delay payments to increase their net cash inflows and that it can buy using a leasing arrangement to avoid using cash.



Possible student task

Now try this

Jermaine designs and manufactures dog coats. He has a contract with a chain of pet stores worth £1200 per month, and he also has a website, with a monthly income of £1500. Calculate Jermaine's monthly inflow and his annual cash inflow.



Work out the monthly figures first and then the figure for the year.

Student practice tasks on writing a cash flow forecast

It is important to provide students with plenty of opportunities to practice the cash flow forecast.

Make up businesses and provide them with numbers.

They can even draw up their own personal cash flow forecast for the coming week or month.

Start simple and get more complicated once students understand the simple layout.

They need to understand the difference between cash, profit and turnover (revenue)

You can introduce the student to Google sheets or Excel spreadsheets at this point.

Activity sheet: Cash flow forecasts

- Cash flow is the money going _____ and _____ of the business in a given period.
- Cash flow forecasting is when the business is trying to predict how much money will be _____ and _____ of the business in a specified future period and how this will impact on the _____ of the business.
- Typical cash inflows for business
 - _____
- Typical cash outflows for business
 - _____
- Typical structure of cash flow forecast
- Opening Balance = _____
- Total inflows = _____
- Total cash available = _____
- Total outflows = _____
- Net cash-flow = _____
- Closing balance = _____
- It is very important to _____ and _____ in-/outflows correctly or business might have problems with their _____ or become _____.

- Introduce the basic definitions

Task 1

- The bank balance in January is £ 200.
- Receipts from sales to customers were £ 800 (Jan), £ 1000 (Feb) and £ 1500 (Mar).
- Receipts from renting out a storage room to another business £150 per month.
- £ 650 was spent on premises only in January.
- Gas and electricity bills were £ 75 in total every month.
- Wages were £ 500 per month.
- Payments to suppliers were £ 300 per month.

	January	February	March
Opening Balance			
Receipts from sales			
Receipts from rent			
Total receipts (inflows)			
Total cash available			
Premises			
Energy			
Wages			
Suppliers			
Total payments (outflows)			
Net cash-flow (inflows - outflows)			
Closing balance			

- Provide students with a simple cash flow example so they can get their heads around the concept

	A	B	C	D
1	Example of cash flow forecast using a spreadsheet			
2				
3				
4		January	February	March
5	Opening Balance	200.00	-375.00	-100.00
6				
7	Receipts from sales	800.00	1000.00	1500.00
8	Receipts from rent	150.00	150.00	150.00
9	Total receipts (inflows)	950.00	1150.00	1650.00
10	Total cash available	1150.00	775.00	1550.00
11				
12	Premises	650.00		
13	Energy	75.00	75.00	75.00
14	Wages	500.00	500.00	500.00
15	Suppliers	300.00	300.00	300.00
16	Total payments (outflows)	1525.00	875.00	875.00
17				
18	Net cash-flow	-575.00	275.00	775.00
19	(inflows – outflows)			
20				
21	Closing balance	-375.00	-100.00	675.00
22				

- Make sure students calculate an example by hand.
- Also an excellent opportunity to introduce spreadsheets if IT is available.
- Make students aware that the forecast is usually for 12 months.

Farmer Bob



Bob the farmer grows wheat on his farm in Hertfordshire. He has problems with his cash flow. Every month he has expenses to pay such as fertiliser or staff wages, but he receives most of his money at the end of the year when he sells his crops.

Bob gives you the following information:

1. At the start of March, Bob has £50 in his bank account.
2. Bob employs one full time farm hand, all year round, Bob pays him £800 a month.
3. At harvest time in September Bob employs two extra workers, he pays them £500 each.
4. Bob pays himself a salary of £1,500 a month, (this is a cash outflow for the business).
5. In March Bob has to buy the seeds to plant, this costs him £350.
6. In March, May and July Bob sprays his crop with Fertiliser. It costs him £600 each time he does this.
7. It will cost Bob around £100 a month for petrol and maintenance on his tractors.
8. In June, he receives a grant from the government of £1,000.
9. Bob sells his entire crop in October to Cadins, they pay him £25,000 in total

	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	TOTAL
OPENING BALANCE									
CASH IN									
TOTAL RECEIPTS									
CASH OUT									
TOTAL PAYMENTS									
MONTHLY NET CASH FLOW									
CLOSING BALANCE									

Check:

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Conditional Formatting



Format as Table



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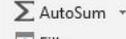
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Editing

P13

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
3	Farmer Bob's Cash Flow																					
4		MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER													
5	OPENING BALANCE	50	-3300	-5700	-8700	-10100	-13100	-15500	-18900													
6																						
7	INCOME / RECEIPTS																					
8	Grant				1000																	
9	Sales of Crops																				25,000	
10																						
11	TOTAL RECEIPTS	0	0	0	1000	0	0	0	25000													
12																						
13	EXPENDITURE / PAYMENTS																					
14	Farm Hand	800	800	800	800	800	800	800	800													
15	Extra Workers																				1000	
16	Bob's Salary	1500	1500	1500	1500	1500	1500	1500	1500													
17	Seeds	350																				
18	Fertiliser	600		600		600																
19	Maintenance	100	100	100	100	100	100	100	100													
20																						
21	TOTAL PAYMENTS	3350	2400	3000	2400	3000	2400	3400	2400													
22																						
23	NET MONTHLY CASH FLOW	-3350	-2400	-3000	-1400	-3000	-2400	-3400	22600													
24																						
25	CLOSING BALANCE	-3300	-5700	-8700	-10100	-13100	-15500	-18900	3700													
26																						
27																						

Sheet1

Sheet2

Sheet3



Ready

85%



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E-Bay Designer



Nicky is a young fashion designer. Nicky lives in a small flat in south London. She currently does not have enough money to open a shop. She works from home designing and making her own clothes. Each month she buys the materials to make her clothes from a local shop. She sells the clothes she makes on E-Bay. She also has a part time job working at Top Shop.

Use the following information to design a cash flow forecast for Nicky.

- At the start of May she has just £20 in her bank account.
- Nicky get paid £150 a month from her part time job at Top Shop.
- Her rent each month is £200.
- Her Broadband internet connection costs Nicky £10 a month.
- In May, she spends £50 on materials to make clothes, she sells them on eBay for £150.
- Again, in June, she spends £50 on materials, this month however, she only sells the clothes for £100.
- In July Nicky's sewing machine breaks. She has to buy a new one. This costs, £50.
- In July, August and September, Nicky spends £75 a month on materials.
- In July she receives £150 from her sales on eBay, In August £200, and in September £175
- Finally in October, Nicky does not make many clothes, she spends just £25 on materials, selling the clothes for £50.

	MAY	JUNE	JULY	AUG	SEPT	OCT	TOTAL
OPENING BALANCE	20						
INCOME / RECEIPTS							
Top Shop							
eBay Sales							
TOTAL RECEIPTS							
Total money available							
EXPENDITURE / PAYMENTS							
Rent							
Broadband							
Materials							
Sewing Machine							
TOTAL PAYMENTS							
MONTHLY NET CASH FLOW							
CLOSING BALANCE							

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Styles: Conditional Formatting, Format as Table, Cell Styles

Cells: Insert, Delete, Format

Editing: AutoSum, Fill, Clear, Sort & Filter, Find & Select

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	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	
3	Ebay Designer cash flow																						
4		MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	TOTAL															
5	OPENING BALANCE	20	60	50	15	80	120																
6																							
7	INCOME / RECEIPTS																						
8	Top Shop	150	150	150	150	150	150	900															
9	eBay Sales	150	100	150	200	175	50	825															
10																							
11	TOTAL RECEIPTS	300	250	300	350	325	200	1725															
12	TOTAL MONEY AVAILABLE	320	310	350	365	405	320																
13																							
14	EXPENDITURE / PAYMENTS																						
15																							
16	Rent	200	200	200	200	200	200	1200															
17	Broadband	10	10	10	10	10	10	60															
18	Materials	50	50	75	75	75	25	350															
19	Sawing Machine			50				50															
20																							
21																							
22	TOTAL PAYMENTS	260	260	335	285	285	235	1660															
23																							
24	MONTHLY NET CASH FLOW	40	-10	-35	65	40	-35																
25																							
26	CLOSING BALANCE	60	50	15	80	120	85																
27																							

Sheet1 Sheet2 Sheet3

Students to create a leaflet on CF advice

<https://www.gov.uk/understand-business-cash-flow>

http://cashsolv.co.uk/cashflow-problems#.V4Tk4_krJdg

<https://www.freshbooks.com/blog/6-ways-to-avoid-cash-flow-problems-in-your-business/>

The above websites will enable students to get information on the usefulness of cash flow forecasting and some of the issues around it.

See task on next slide.

Possible student task- will help with further understanding

Team task:

Cash flow leaflet

Work in small teams (3-4 students).

Many new business start-ups fail not because they do not have enough sales but because they are not able to sustain the flow of money around their business to meet the expenses and bills that fall due.



You have been asked by Plymouth City Council to create a leaflet or short booklet for new business start-ups. In this leaflet you should address the following issues in an easy to understand way.

- What is a cash flow forecast?
- What are common reasons for cash-flow problems in business?
- What are common solutions to cash-flow problems?
- What are the benefits of producing a cash-flow forecast?
- What are the limitations of a cash flow forecast?

Useful videos on this topic

Cash-flow forecasting – what is it?

Can be used as an introduction or just for self-study/revision

<http://www.youtube.com/watch?v=kW3Ti4Z24yU>

https://www.youtube.com/watch?v=VcvaJ9dv_I8

<https://www.youtube.com/watch?v=Jh7BJtV72z8>

<https://www.youtube.com/watch?v=-5hiiQCsUc8>

<https://www.youtube.com/watch?v=-GhJ7Nb36-M>

<https://www.youtube.com/watch?v=rWa2kurhqZ0>

Kahoot on this topic

[Kahoot on LO2](#)

Exam questions

- There will be some MCQs, including calculations
- There will be a cashflow forecast for the students to draw up - calculator needed.
- There will be a couple of higher level questions on reasons for cash flow problems and solutions.
- There could be a question on benefits and limitations of cash flow forecasting.

Example exam questions

Q 6

The following information on Susie's business is available. He has asked you to produce a six months cash flow forecast from September to February.

12 marks

- In September, she has an opening balance of £5500 in her bank account.
- She estimates her sales to be as follows:

Sep	£1800
Oct	£2000
Nov	£2200
Dec	£2500
Jan	£3000
Feb	£3200

Most of the above sales will be for cash, but she plans to make a quarter of her sales to beauty product shops who will be given one month credit within their terms of payment.

- Her beauty product purchases will amount to 50% of sales each month the sale is made. No supplier grants her any credit terms, i.e. all stock has to be paid for immediately.
- She will spend £150 each month on advertising.
- Various expenses, including post and packaging, are expected to cost £200 per month for the first three months and go up to £300 per month for the following three months.
- Susie plans to buy equipment in September costing £700.
- For the six months of trading, Susie will take £1,200 per month as drawings.

Q 6 cont. - Enter your cash flow figures below

	Sep	Oct	Nov	Dec	Jan	Feb
Opening balance						
Cash inflows						
Cash sales						
Credit sales						
Total cash inflows						
Cash outflows						
Total cash outflows						
Net cash flow						
Closing balance						

Q 5c

Short-term cash flow can be improved by:

A	Increasing the value of finished goods inventories	<input type="checkbox"/>
B	Extending the period of credit taken from suppliers	<input type="checkbox"/>
C	Cutting the gross profit margin	<input type="checkbox"/>
D	Repaying a long-term bank loan	<input type="checkbox"/>

1 mark

Q 5h

If cash inflows are £8,000 and net cash flow is (-£2,000), calculate the value of cash outflows.

A	£6,000	<input type="checkbox"/>
B	£10,000	<input type="checkbox"/>
C	£12,000	<input type="checkbox"/>
D	£16,000	<input type="checkbox"/>

1 mark

Q 7

Analyse **three** reasons for the cash flow problems that Susie is experiencing. You can achieve this by

- suggesting three reasons for her cash flow problems
- explaining each reason in the context of her business and what the knock-on effect would be if it is not sorted.

10 marks



Q 8

Evaluate **three** ways that Susie can use to improve her cash flow.

You can achieve this by:

- Making three suggestions for improvements
- Analysing advantages and disadvantages of each improvement
- Provide a justified conclusion in which you make a final recommendation based on your previous analysis.

12 marks

Summary/conclusion

- Students need to
- know the terminology linked to cash flow forecasting.
- understand the layout of a cash flow forecast.
- be able to complete a 12-months cash flow forecast using numbers provided to them.
- be able to describe and evaluate typical cash flow problems (what are they? How serious can they be? What would be the consequences for the business if not addressed)
- be able to suggest and evaluate solutions to cash flow problems.
- Evaluate benefits and limitations of cash flow forecasting.

Assignment for next session on LO2

- I will answer all the questions you may have on this topic after you have studied it a bit more.
- Prepare a 1 hour lesson on cash flow forecasting.
- I would like for half of you to focus on an introductory lesson to the topic (covering layout, simple tasks etc.),
- the other half of you should plan a lesson where you teach students further cash flow forecasting issues like typical cash flow problems, typical solutions to cash flow problems.
- Make the lessons as interactive as possible

THANK YOU
ANY QUESTIONS?

