5.2 Cash-flow forecasting and working capital

Name: ______________ Class: __________ Date: ____________ **Total: 19 marks**

KEY WORDS net cash flow 净现金流 • closing balance 期末余额 • opening balance 期初余额 • working capital 营运
• inflows 流入

Objective

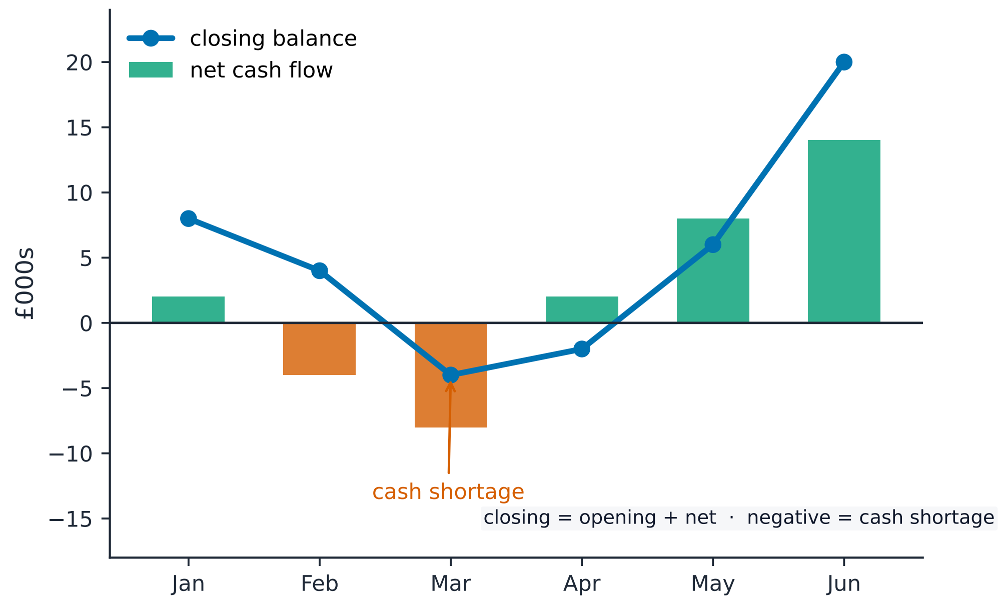
Build the skills to answer exam questions on **cash-flow forecasting and working capital 现金流预测与营运资金** — why **cash is not profit 现金不等于利润**, the **cash-flow forecast 现金流预测**, and **working capital 营运资金**.

You must be able to:

- explain why a profitable business can run out of cash
- calculate net cash flow and the closing balance
- explain ways to solve a cash-flow problem

1 Worked examples

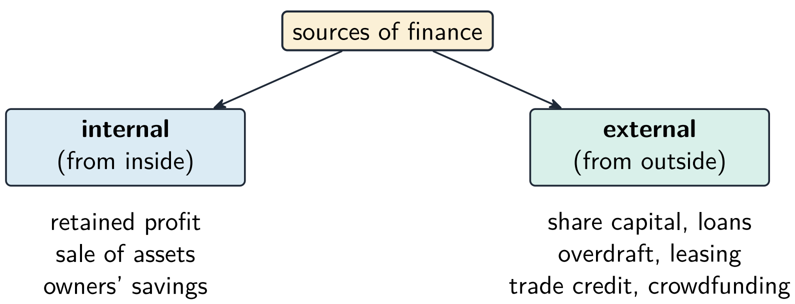
■ A cash-flow forecast



Each month's closing balance carries forward to next month

net cash flow = inflows−outflows   closing balance = opening balance+net cash flow

- **Worked:** inflows \$15,000, outflows \$11,000, opening \$3,000 → net = \$4,000, closing = \$7,000.
- **Cash ≠ profit:** a profitable firm can run out of cash if customers have not paid yet.
- **Working capital** 营运资金 = current assets − current liabilities.
- **Solve a shortage:** arrange an overdraft, delay paying suppliers, ask customers to pay sooner, sell spare assets.



External finance — an overdraft or short-term loan — is one way to cover a forecast cash shortage

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

2 Practice

2.1 Define the term *net cash flow*. [2]

2.2 A month opens with $5,000. Inflows are $18,000 and outflows are $20,000. Calculate the closing balance. [2]

2.3 State one reason a profitable business might run out of cash. [1]

3 Exam-style questions

3.1 Identify two ways a business could solve a cash-flow problem. [2]

3.2 Explain two benefits to a business of producing a cash-flow forecast. [6]

3.3 A business has forecast a cash shortage next month. Do you think arranging an overdraft is the best way to solve it? Justify your answer. [6]

Solutions

IGCSE Business answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 the difference between cash inflows and cash outflows over a period (2 for a clear definition; 1 for a partial idea).

2.2 net cash flow = $\$18{,}000 - \$20{,}000 = -\$2{,}000$; closing = $\$5{,}000 + (-\$2{,}000) = \$3{,}000$ (2; award 1 for a correct method with the wrong figure).

2.3 any one of: customers have not paid yet; too much stock bought; too much spent on assets at once (1).

3.1 any two of: arrange an overdraft; delay paying suppliers; ask customers to pay sooner; sell spare assets; cut spending (1 + 1).

3.2 *[6]* For **each** of two benefits: K 1 + An up to 2 — e.g. *spot a shortage early*: the forecast shows a future shortage → the firm can arrange finance in time → it avoids running out of cash. *Plan and control*: it shows when money is tight → the firm can delay spending. Maximum 3 each.

3.3 *[6]* Both sides + judgement. **For an overdraft:** it is fast and flexible, covering a short gap until cash comes in. **Against:** it charges high interest, and if the shortage is large or long-term, better solutions are chasing debtors or cutting stock. **Judgement (Ev):** an overdraft is good for a short, small shortage, but a deeper problem needs better working-capital management — it depends on the size and length of the shortage.