

16. Cash Flow Management

I. Missing Words

Cash flow is always important, especially for new, _____ firms. In 2008, banks suddenly became very worried about business loans (as falling house prices made them feel insecure). So they came down very hard on any business that broke its overdraft limit. Any cash flow problem (such as one big buyer failing to pay on time) could threaten to become a crisis. No firm wants a sudden fall in its cash _____ or a rise in its cash _____. So careful cash flow management is very important. **Hints: outflows ... small ... inflows**

2. Bags of Cash?

Cash flow forecast for Bags and Bags Ltd (all figures in £s)

	Jan	Feb	Mar	Apr	May	Jun
Cash at start	50,000	-250,000	C =	-150,000	-100,000	G =
Cash in	0	100,000	100,000	D =	150,000	150,000
Cash out	300,000	50,000	50,000	50,000	E =	75,000
Net cash flow	A =	50,000	50,000	50,000	F =	75,000
Cumulative cash flow	-250,000	B =	-150,000	-100,000	-25,000	H =

2.1 Fill in the gaps A – H

2.2 Bags and Bags LTD are considering purchasing a new second outlet in Kingston for £350,000 Outline:

a) How this would affect their cumulative cash position _____

b) How they could improve their cash flow position. _____

3. Explain two ways a firm could:

3.1 Speed up cash inflows _____

3.2 Delay cash outflows _____

3.3 Increase the accuracy of their cash flow forecasts _____

4. Improving cash flow. Pick at least 2 possible solutions to each of the 4 problems listed

CAUSE OF CASH PROBLEM	SOLUTION (1)	SOLUTION (2)
4.1 Awful Spring weather has left Bala Beachware Ltd with too much stock	A. Discuss the situation with your suppliers, looking for help	E. Sell some of the shares in your business to raise some extra cash
4.2 Opening a second restaurant is proving more expensive than intended	B. Carry out a sale and leaseback deal	F. Cut back on your stock level
4.3 A big customer has refused to pay you a large bill	C. See if your overdraft limit can be increased	G. Arrange for a 12 month bank loan
4.4 Falling sales have left you with poor cash inflow and too much cash outflow	D. Arrange for a factor to handle your customer invoices	H. Have a 'mid-season sale' to cut stocks and get some cash in

16. ANSWERS – Cash Flow Management

1. small ... inflow ... outflows

2. Cash flow forecast for Bags and Bags Ltd

	Jan	Feb	Mar	Apr	May	Jun
Cash at start	50,000	-250,000	-200,000	-150,000	-100,000	-25,000
Cash in	0	100,000	100,000	100,000	150,000	150,000
Cash out	300,000	50,000	50,000	50,000	75,000	75,000
Net cash flow	300,000	50,000	50,000	50,000	75,000	75,000
Cumulative cash flow	250,000	-200,000	-150,000	-100,000	-25,000	50,000

2.1 Fill in the gaps A – H

- A) -300,000 B) -200,000 C) -200,000 D) 100,000
E) 75,000 F) 75,000 G) -25,000 H) 50,000

2.2 Bags and Bags LTD are considering purchasing a new second outlet in Kingston for £350,000 Outline:

- a) It would put them back into the red
- b) Obtain a loan would improve their cash flow

Obtaining an overdraft wouldn't change their cash flow but would stop it being such a problem

3.

3.1 Chase late debts, debt factoring, offer incentives for cash payments

3.2 Delay payments to suppliers, negotiate longer credit terms with suppliers

3.3 Improve vetting of future customers, use factoring to avoid chasing debtors

4.1 A, H

4.2 B, C

4.3 C, D

4.4 E, H