**Q.3 (a) Assume that in December the following occurs following:**

* **That wages are increased by 6%.**
* **The insurance premium that the company has to pay rises by 10%.**

**(i) Recalculate the closing balance in December for Spring Furnishings Ltd’s cash flow forecast. (Show clearly your workings.) [5]**

New monthly Wages = £212.000

New Insurance Premium = £44,000

New total Payments = £1,718,000

New net cash flow = (£ 498,000)

New Closing Balance = (£160,000)

**(x1**) for each correct calculation or (£160,000) = 5

**(ii) Suggest three ways in which Spring Furnishings could attempt to improve its cash flow situation and evaluate each of your suggestions. [9]**

Level I (1-3) Candidate briefly outlines up to three ways to improve its cash flow.

Level II (4-6) Candidate explains/analyses ways identified to improve cash flow in Level 1 and may attempt some evaluation.

Level III (7-9) Candidate fully evaluates ways to improve cash flow in Level 1.

Possible responses may include:

* Improving revenue through increased sales and marketing campaign – unlikely to work as economic conditions are against them.
* Increase prices – will depend on price sensitivity (PED).
* Cut costs – this would depend on how efficient they already are. e.g. Cutting raw material costs by finding a new supplier may compromise quality.
* Chase Relax Retail for the outstanding invoices. If they have gone into administration then getting the money is very unlikely.
* Find new insurer – will cover still be as good?
* Take some action to improve productivity. IR doesn’t seem too good at present – new initiatives may not go down too well.
* Reduce wage bill by making some people redundant – TU would fight this and could result in a strike.
* Invite new shareholders to inject money into the business - possible dilution of control.

 • Sale of assets - may lose benefits of the assets.

 • Re-negotiate terms of the loan - may back more in the future.

 • Debt factoring on future invoices but will not get full invoice value.

 • Ask bank to increase overdraft limit on a short-term basis but extra interest.

 • Extend credit terms with their own suppliers might cost more as early discount lost.