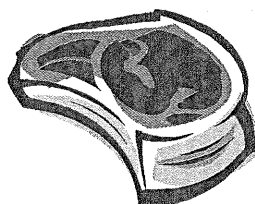


## Cash Flow Forecasting: Making Ends Meet



Frank Simmons runs a meat wholesale unit in Reading. His main payments include purchases of meat, the wages of two butchers, a van driver and a clerk that he employs. Expenses, such as electricity payment, and money he withdraws for his own use. Most of his sales to retailers are on 30 days credit, although some small customers pay immediately with cash. Below, is his cash flow forecast statement for the period July to December.

	July	Aug	Sept	Oct	Nov	Dec
<b>Receipts</b>						
Cash Sales	2,000	2,000	2,000	2,000	4,000	10,000
Credit Sales	8,000	8,000	9,000	9,000	10,000	16,000
<i>Total Receipts</i>	<i>10,000</i>	<i>10,000</i>	<i>11,000</i>	<i>11,000</i>	<i>14,000</i>	<i>26,000</i>
<b>Payments</b>						
Purchases	3,000	3,500	3,500	4,000	8,000	16,000
Wages butchers	2,000	2,000	2,000	2,000	2,000	4,000
Wages driver, clerk	1,400	1,400	1,400	1,400	1,400	2,800
Electricity			900			2,500
Telephone		200			250	
Rent and Insurance					12,000	
Drawings	1,500	1,500	1,500	1,500	1,500	1,500
Motor and Misc.	500	500	500	500	500	500
<i>Total Payments</i>	<i>8,400</i>	<i>9,100</i>	<i>9,800</i>	<i>9,400</i>	<i>25,650</i>	<i>27,300</i>
<b>Net Cash Flow</b>	<b>1,600</b>	<b>900</b>	<b>1,200</b>	<b>1,600</b>	<b>(11,650)</b>	<b>(1,300)</b>
Opening balance	1,700	3,300	4,200	5,400	7,000	(4,650)
Closing Balance	3,300	4,200	5,400	7,000	(4,650)	(5,950)

a) Explain how Frank Simmons would calculate his:

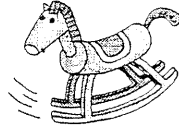
- i) Total payments in July
- ii) Net cash flow in July
- iii) Closing Balance in July
- iv) Opening balance in August

b) Identify months in which Frank Simmons has a cash flow problem and explain why the problem has occurred

c) In December Frank Simmons makes credit sales which will be worth £30 000 when paid. Comment on his likely cash flow position in January of the following year.

## CASH FLOW FORECASTING

DR LUND



Dr Adrian Lund resigned as a doctor, and decided to set up his own firm, making and selling toys. He did some calculations and made estimates of his potential costs and revenues. He now needs your help.

£	August	September	October	November	December
<b>Cash inflow</b>					
Sales revenue	1000				
Other cash inflow					
<b>Total inflow</b>					
<b>Cash outflow</b>					
Raw materials					
Rent					
Power					
Telephone					
Bank loan					
Wages					
Other expenses					
<b>Total outflow</b>					
<b>Net cash flow</b>					
<b>Opening bank balance</b>	0				
<b>Closing bank balance</b>					

Sales revenue is expected to fall by a quarter in September, and October is expected to bring the same revenue as September. It is predicted to rise to £1200 in November, and to go up to £3000 in December due to the Christmas rush. Rent of his shop will be £300 per month. Power bills, for heating and lighting are expected to be £50 per quarter, starting in August. The telephone bill is expected to be £25 per quarter, starting in September. The cost of raw materials is expected to make up half the price of the toy, and so will be half of sales revenue. Wage bills will be £100 per month, except in August and December, when they will be £200. The bank loan that Dr Lund has taken out will cost him £65 per month for the first year of trading. It is realistic to expect that other expenses will be £40 per month. Dr Lund has put £350 in cash (all the money he has) to open the firm's bank account on the 2<sup>nd</sup> August on the understanding that the bank will, under no circumstances, allow any more than a £50 overdraft.

Complete the cash flow forecast, using a pencil!

If the firm survives until January, will it be profitable?

What is the most significant piece of information contained in the cash flow forecast?