

BTEC First Diploma in Business

Unit 3 Investigating Financial Control

Introduction:

In this assignment i will prepare an annual cash flow forecast using monthly datas and analyse the implications of regular and irregular cash inflows and outflows for a business organisation. I will also evaluate how cash flows and financial recording systems can contribute to managing business finances.

Task 1 a

A Cash flow relates to the amount of money received and spent in the given period. Cash flow problems occur when the amount spent is greater than the amount received and Cash flow statement is normally produced in a little more detail than the summary statements. A cash flow statement or statement of cash flows is a financial statement that shows how the inflows and outflows affect the business. The cash flow statement is useful in determining the short-term usefulness of a business. It is good if you have to pay bills and Cash flow forecast means preparing a cash flow statement for the future with predicted inflows and outflows. This is always easier to do for an established business because managers have more experience and knowledge on which to base their decision.

In my opinion cash flow refers to the difference between the cash flowing into the business for example through sales revenue and the cash flowing out of the business for example bills and wages.

A cash flow statement is a Financial document, which shows the cash inflows and the cash outflows for our business over the past 12 months. It includes those months in which our business suffered a negative cash flow (where cash outflows were greater than cash inflows) and it will also shows us those months in which we had a positive

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cash flow (more cash inflows than cash outflows). It allows Down 2 U to prepare a cash flow forecast for the forthcoming year.

A cash flow forecast is a document, which outlines the forecasted future cash inflows (from sales) and the outflows (raw materials, wages, etc) per month for our business over a specific time of period.

Task 1 b

	September	October	November	December	January
Income	19.000	15.000	16.000	20.000	20.000
Total Income	19.000	15.000	16.000	20.000	20.000
Expenditure					
Stock	2.000	5.000	8.000	10.000	10.000
wages	1.500	1.500	1.800	1.800	1.800
gas and electric	700	700	700	700	700
loan repayments	800	800	800	800	800
Currently rent	2.500	2.500	2.500	2.500	2.500
Insurance	300	300	300	300	300
Advertising	1.700	1.700	1.700	1.700	1.700
Total Expenditure	9.500	12.500	15.800	17.800	17.800
Net Cash Flow	9.500	2.500	200	2.200	2.200
Opening Balance	5.000	14.500	17.000	17.200	19.400
Net Cash Flow	9.500	2.500	200	2.200	2.200
Closing balance	14.500	17.000	17.200	19.400	21.600

For example:

I forecasts that in September we will experience cash inflows of £19000 and cash outflows of £9500, leaving a positive net monthly cash flow of £9500.

This is added to the £5000 bank balance which existed at the end of August, to give a forecasted bank balance at the end of January of £14500.

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	February	March	April	May
Income	10.000	11.000	12.000	12.000
Total Income	10.000	11.000	12.000	12.000
Expenditure				
Stock	6.000	6.000	6.000	6.000
wages	1.800	1.800	1.800	1.800
gas and electric	700	700	700	700
loan repayments	800	800	800	800
Currently rent	2.500	2.500	2.500	2.500
Insurance	300	300	300	300
Advertising	1.900	1.900	1.900	1.900
Total Expenditure	14.000	14.000	14.000	14.000
Net Cash Flow	-4.000	-3.000	-2.000	-2.000
Opening Balance	21.600	17.600	14.600	12.600
Net Cash Flow	-4.000	-3.000	-2.000	-2.000
Closing balance	17.600	14.600	12.600	10.600

In the months of February till May , our business is forecast to experience negative net monthly cash flows (what means cash outflows are forecast to be greater than its cash inflows). This reduced our bank balance to £10600 by the end of May.

It is important for our business to produce a cash flow forecast, so that we can prepare for those months in which we will have a negative cash flow.

In the months where we have a positive cash flow, we can the money profitably for example for new products.

Task 2 a

December and January was the month with regular inflows and outflows because during this time our inflows and outflows didnt change and this is good for our business because we will be able to plan our cash flow. It is better for down 2 u if we have a regular in and outflow because it will be easier for us to plan and predict our cash flows and we will be able to improve our business more better if we have a regular in and outflow.

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Task 2 b

Regular in - and ourflows – This type of inflow is when the business offers customers discounts if they sign up to pay direct debit, which is a regular payment system this make it easier for the business to plan and predict cash flows.

Irregular in – and outflows – This is when the business is not getting the same amount of inflow every month or spending differently every month on outflow.

If we have regular inflows and outflows that will be very good for our business because that would mean that we can plan better for our future cash flow.

Task 2 c

Down 2 u will be affected if the inflows and outflows are irregular because we will not know how much we would receive for the month and we will not be able to plan for our income for the next comin month. And it can also put our business in debts because if we dont make any profit or dont have our breakeven then we will not be able to pay for our stock and other payments that we have to pay every month. But if our inflows and outflows are regular it will not affect our business because we will exactly know how much we will make in the month and in some other month aswell and we can plan for the future from our business.

Task 3

In this task i should make references for:

- **Seasonal variation:** This will affect our business because in every season we generate a different cash inflow and outflow. For example, in summer and winter we will have to spend more on outflows because during these season there is a high demand of stock because of sales and that will also mean that we will make more profit than in spring and autumn, but if we make enough profit in summer and winter we can cover our cost with it.

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- **Late credit payments:** This means that customers are allowed to pay for goods a few weeks after they have received them. This would affect us because if the customer make late payments we will lose large amounts of money and that would mean that we will be short of cash. This will also affect us to plan for our future cash flows because some customer wont be paying on right time of which would leave us with problem, because that would mean that we will not have enough money to upgrade our store.
- **Capital expenditure** This is spending on large items which are expected to last for some time. This would affect us because we would be invest large amounts of money on the business. For example, if we want to make our business bigger, new staff members and new new uniform for our them. This would be a big outflow because there would be more money going out than coming in. This could lead us in to debts or short of cash.

Cash flows contriburtes to our finances because it helps us to see if we had a positive month because this could be used to plan and predict future cash flows of our business, this also helps us to see wheter we are losing or gaining money or wheter we are spending to much money, by showing this we will be able to fix problems and helps us to save money. Cash flow also allows us to know if we are able to invest on our business.

Managment of these factors will help us to be able to plan and predict future cost so that we can be able to manage our costs during the months that we are not selling much. For example

- **Seasonal Variation** if we are able to manage on the month we dont have a lot of customers then we will be able to plan and predict future inflow and outflows, we can do that if we are not spending too much during the season we always not have enough customer for example in march and april. What means

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we should know how to manage our inflows so that the outflows will not be greater than our outflows for that period.

- **Late credit payment** if we are able to manage this problem then we will be able to invest our money on our business because if we manage late credit payment then we will know that we will receive regular payment every month. What means if we don't have late credit payments we will be able to know exactly how much inflows and outflows we have in that month.
- **Capital expenditure** we will be able to manage this by making sure that we invest in things that will bring us more money.