

M2

MINI INTRODUCTION

In this coursework, I will explain what cash flow is and why is it useful to a business organisation. I will use JJ Supermarket to illustrate my explanation. I will show where does JJ Super market receives its inflow and how this inflow does and outflow of cash affects the JJ Supermarket.

Cash flow means the flow of money in a business this includes in flow, money coming into the business (revenue) and out flow, money being spent by the business (total cost). Cash flow forecast is an easy way to keep track of money going in and out of the business. Cash flow forecast is used by financial department in order to check if there is any problem in the business. If the business is making loss, cash flow forecast could be used to identify the problem by looking at the various out flow of the business and observing why are they higher than the cash inflow.

JJ Supermarket receives its revenue (cash inflow) from sales of stock, capitals owner etc. JJ Supermarket will also have outflow from the business because in order to run a business they will have to pay for things like purchase of stock, business rates, electricity, advertisings etc. It could be a problem for JJ Supermarket if their out flow of the cash is more than their inflow. This means that the JJ Supermarket will make loss. Whenever the business outflow is high, it is a danger to a business due to pressure of making higher inflow then the outflow. If the inflow is greater than the out flow, the business will make profit. This is a positive sign for the business. In order to take short-term actions in case of higher outflow, the JJ Supermarket can demand for credit terms with their stock supplier or could try to reduce the usage of electricity. That can even try to decrease their stock prices at in order to sell more units with minimum profit and try achieving break even.

JJ Supermarket will have to maintain a regular cash flow position to run the business successfully. Maintain cash flow regularly helps the business in track of what is going on in their business. It is an essential way to keep an eye on each and every money spent by the business. This helps them maintain good position. If the cost level increases, they will know straight away that some kind of action needs to be taken. If their inflow is too high and are making huge amount of profit, then it is not always good because it could be for shot amount of time and next month the business could face loss. Therefore, it is important to maintain a level in cash flow.

If JJ Supermarket experiences problems in their cash flow then it is an important to do something quickly as it could result in the business going bankrupt. The insufficient amount of revenue will not be enough for the cost of that JJ Supermarket will have to pay. In this case business will have to observe their cash flow carefully and analyse were they are going wrong before their business has to be shutdown.

JJ Supermarket's cash flow forecast was good and it was making profit. It did have some problems as in June and July they experienced their lowest revenue. Then the next month, august, was made even worse by having the largest amount of cost in the whole year. These three months of JJ Supermarket made their profit levels down. These three months had lowest revenue with high cost from the stock purchase. In order to solve this problem JJ Supermarket can try to reduce their normal levels of cost. They can try to buy less stock so they will have to sell fewer products to break even.

Conclusion to this coursework, I have shown the problems that could be analysed by observing the cash flow. Generally, these implications are caused by irregular cash outflow, which could increase to very high level.