

## Task 3 D1

It is now 12 months since Jane started the business. During the year she has had time to reflect on month to month trading. She has asked you as a friend to write her a report outlining the following:

1. What courses of action could be introduced to control the business's cash flow most effectively?
2. How will this contribute to the overall effective performance of the business operation and ultimately maximise cash flow.

### CASH FLOW FORECAST

“Cash flow forecasting means preparing a cash flow statement for the future with predicted inflows and outflows.”

(Source: *B2C1's Business*)

A business often prepares a cash flow forecast showing the money likely to flow into and out of the business in a given period. Forecasts are based on past experience of the business.



Cash flow forecast include revenue such as cash sales, credit sales, loans and expenditures like wages, insurance, loan payment, etc.

### BUDGETARY CONTROL

“A Budgetary control is a system of creating budgets, monitoring progress and taking appropriate action to achieve budgeted performance.”

(Source: [www.brunswickis.co.uk](http://www.brunswickis.co.uk))

Budgetary control is a process of monitoring and analysing financial control within organisation.

## Budget



“A budget is a plan, which is set out in numbers. It sets out figures that an organisation or company hopes to achieve in the future.”

(Source: THE TIMES 100)

Budget is a financial plan, sets out financial targets and a plan expressed in money over a given period.

Organisations prepare budgets for sales, production, costs, assets, liabilities and cash flow and prepare in advance then compared with actual performance.



Managers are responsible for the controllable costs within their budget and they are required to take appropriate action if there are any mistakes.

## THE USE OF BUDGETS IN PLANNING AND MONITORING BUSINESS FINANCES

### 1. What courses of action could be introduced to control the business's cash flow most effectively?

"Cash is King"! Without cash flow there are nothing in business. Cash flow is the life blood of business and can be the primary indicator of the health of business.



With today's economic climate having an impact upon business operations it is important to effectively manage the flow of cash into and out of business.

There are several things organisations can do to control businesses' cash flow most effectively:

### **Bill Promptly**

Customer and supplier have agreed contract on paying bills which includes terms and condition of business between them. If the customer has agreed to terms of Net 30 days, he should wait a little and take some little interest on it.

### **Penalise Late Payers**

All businesses set payment terms of Net 15 or Net 30 days but some businesses don't penalise their customer if the terms aren't met.

Businesses can add penalties for their customer by adding interest if they don't pay within a given period or offer some discount so customers will pay promptly.

For example, if customers don't pay their bills on time, he can charge some interest like 10% on payments. If customers have over due bill of £80, they have to £80 plus 10% interest on it which will give total of £88.

### **Running credit checks on customers**

It is difficult for businesses to run a credit check on every customer and supplier. Businesses run checks only when problem arise with customers or suppliers. If businesses run checks, it is better for businesses in the long term and businesses can avoid customers immediately who are slow pays or failing in paying bills.



### **Comparison Suppliers Online**

Now a day, internet is a great source of information and also helps many businesses. There are some businesses which are 100% depended on internet like Google.



The internet makes comparison very easy. Some suppliers don't cut their prices according to the

market. By checking prices every quarter or half year on the internet, a business can gain knowledge of prices and how much they should be paying for particular goods like insurance and feed for horses. For example, he is paying insurance of £500 per month. If he finds cheaper insurance this costs him just £300 per months instead of £500 so he will save about £200 per month.

### **Encourage Partial Payments**

When businesses don't have much cash in hand, they try to encourage their customers to pay part of their payment in advance and most customers will agree on it. In return the business may provide some concession to its customer such as lower pricing or discount.

They can probably get a loan from bank of £5,000 to have more in business.

### **Cost Cutting**

They try to cut down their expenditures like advertising, and cheaper location means less rent of £250, save electricity by energy efficient equipments and find cheaper supplier and that would save him £150 on energy bill.

## **2. How will this contribute to the overall effective performance of the business operation and ultimately maximise cash flow.**

Implementing a few of the tips above can improve things almost immediately and put business back on the right track to a positive cash flow.

### **BENEFITS OF BUDGETING**

- Planning can be easily linked to management decisions
- Managers can be made responsible for budgets
- Budgets encourages co-operation and co-ordination
- Outcomes can be compared to budgets
- Sets standards for performance

## CONTRIBUTION TO BUSINESS OPERATION AND CASH FLOW

Terms and conditions is very key word used in business world and can get a lot of money in business or can cost a lot of money to business.

When business agrees contracts with supplier, it needs to be very careful on terms and condition and he needs to keep in mind in making business decisions.



When he get bills for electricity and telephone, it have due date on those bills so he should take advantage of it. If he pays his business bills on due date, that gives him cash in his hand for little longer.

If he has more cash in his hand, he can pay to other supplier or he can keep it bank account for longer and get little more interest on and wait till other money comes in and pay those bills later.

By penalising late payers, again business will have more money than actual bill but problem is only that he will get those payment little later.

This is just another way of getting money in from customer on time. Once customer pays interest on his bill then next time he will take care of it and usually pay on time therefore business will money in on time or early.

Running credit checks on customer or supplier gives business financial information and credit report about customer or supplier. When business runs credit checks on customers, business will get to know if customer has any fraud, haven't paid his credit card bill, haven't clear his mobile contract, etc.



These types of information help business and business will know credibility of its customer.

When it comes to cutting down on finances, business always think about finding cheaper supplier or cheaper raw materials because this will reduce its fixed cost and variable costs and business will save money on its expenses.

There are many comparison websites available on internet, it is great source for business to find cheap insurance or cheap telephone provider and it's very easy and quick too.

As we have seen solutions to improve and make cash flow very effective in first part and we have also looked at effect it will make on overall business operation and cash flow.