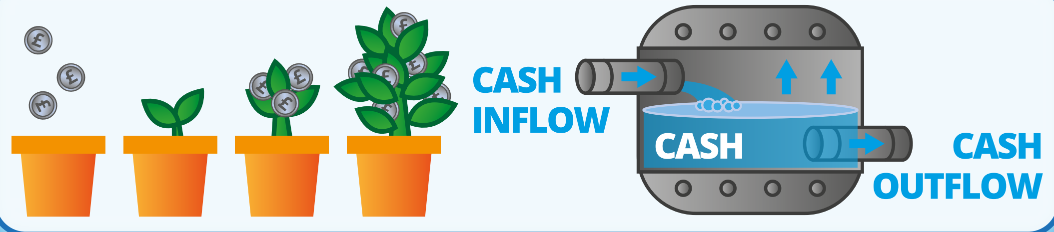
GCSE Business
Finance

Cash Flow

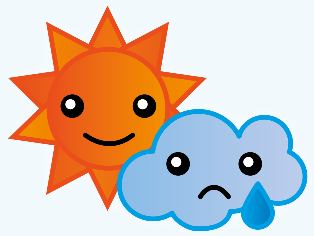
Cash Flow

Definition: The money that flows into and out of a business on a day-to-day basis.



Cash Flow Forecast

Definition: Sets out a business' expected inflows and outflows of cash over a period of time.



Why are cash flows important:
- **May be part of a business plan ➔** when a business wants to borrow money
- **Forewarns about future possible cash flow problems ➔** helps a business to put a plan in place
- **Helps bank decide whether to give loan ➔** suggests ability to repay.

External events which may result in the actual cash flow being different from the forecast:
- **Increased/decreased taxes ➔** will change the amount of cash held
- **Interest rates ➔** change in amount of cash given to banks
- **Legislation ➔** may change the services offered and therefore cash available ➔ minimum wage
- **Weather ➔** will change number of goods sold/ expenditure of customers
- **Increase in costs ➔** wages/fuel etc.
- **Inflation ➔** increase costs ➔ reduce customers
- **Competition ➔** attracts customers away
- **Breakage of equipment ➔** fewer items to sell ➔ costs of repair.

Turnover (Revenue)

Definition: The value of sales / income / revenue of a business / money made from selling goods or services.

Calculation: Selling Price × Quantity Sold

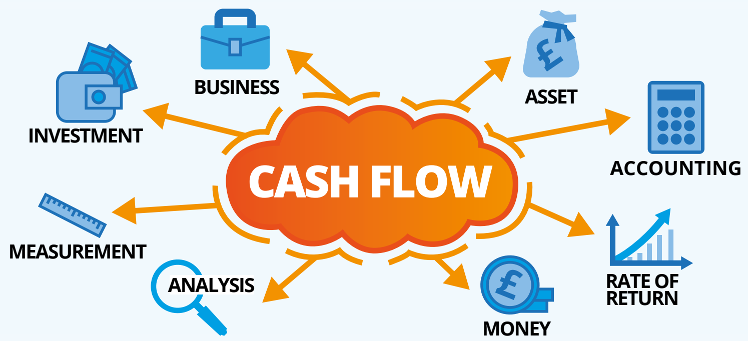
Expenses of a Business

Examples:
- rent / salary / wages / utilities / tax / fuel / insurance / marketing / telephone / broadband / business rates.

Net Cash Flow

Definition: Another word for predicted 'profit' on a cash flow forecast.

Calculation:
Net Cash Flow = Total Inflow – Total Outflow



Opening Balance

Definition: The cash available to a business at the start of a month, carried over from the closing balance of the previous month.

Closing Balance

Definition: Cash remaining in a business at the end of a month.

Calculation:
Closing Balance = Opening Balance + Net Cash Flow

Ways to Improve Cash Flow Position

- **Reducing staff**
  - ☑ will reduce the wages bill
  - ☒ but this may lead to an inferior service ➔ or reduced output ➔ loss of customer ➔ so revenue may fall.
- **Buying cheaper materials**
  - ☑ will reduce production costs ➔ and lead to lower prices ➔ which could generate more custom
  - ☒ but customers will not be happy about the quality of the product ➔ so sales may fall.
- **Delaying payment to creditors**
  - ☑ will allow cash to be used for other purposes
  - ☒ but suppliers may become reluctant to offer trade credit.
- **Chasing up bad debtors**
  - ☑ may generate cash
  - ☒ but may lead to cash problems for customers ➔ who may not be able to pay any debts.
- **Increasing promotions**
  - ☑ may lead to increased sales
  - ☒ but may have no impact on sales ➔ and will be expensive to set up.
- **Raising finance/from bank/selling assets**
  - ☑ can generate cash to pay day-to-day bills
  - ☒ but this will have consequences ➔ the money loaned will have to be paid back.
- **Increase/reduce price**
  - ☑ may lead to more revenue if sales don't fall
  - ☒ but revenue may fall if they get fewer customers.