

Cash Flow Statements

ABC Manufacturing produces wheels for cars. It holds high inventory levels so that one-off orders from major car manufacturers can be satisfied quickly. The world's big car manufacturers can be satisfied quickly. The world's big car manufacturers demand long credit periods from their suppliers of three months. The finance manager has prepared the following cash flow forecast for the next three months:

\$000	July	August	September
Cash Inflows			
Cash from debtors' payments	550	475	545
Sale of old equipment	0	0	50
Total Cash in	550	475	595
Cash Outflows			
Materials purchased	160	175	170
Employee costs	185	185	190
New computers	0	145	0
Other costs	155	125	135
Total Cash Out	500	630	495
Opening bank balance	(75)	(25)	(180)
Net cash flow	50	(155)	x
Closing bank balance	(25)	(180)	y

- What is meant by 'net cash flow'? (2)
- Identify two reasons why working capital is important. (2)
- Calculate the values for x and y in the cash flow forecast. Show your working. (4)
- Amend the cash flow forecast for July assuming cash from debtors and material costs are going to be 10% higher than originally forecast. Show your working. (6)
- Using the cash flow forecast above, advise ABC Manufacturing on the best ways for the business to reduce its bank overdraft (negative closing balance). Justify your advice. (6)