

Forecasting and managing cash flows

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What you need to know

By the end of this topic you should be able to:

1. **Explain what a cash flow forecast is and why businesses draw one up:** a month-by-month (or year-by-year) estimate of the cash a business expects to receive and pay out, used to spot shortages early, plan finance, persuade lenders and keep track of targets.
2. **Interpret and amend a simple cash flow forecast:** read what the figures say about the business, calculate net cash flow, opening and closing balances (including negative ones and missing figures), and redo the forecast when a plan or an estimate changes.
3. **Explain different methods of improving cash flow:** ways to bring cash in sooner or in larger amounts, and ways to cut or delay cash going out, with the drawback of each.

You also need the meaning of **cash flow** itself and the difference between **cash** and **profit**, which you met in the business finance topic and which examiners test again here.

Understand it

What cash flow is

Cash flow is the money that comes into a business and the money that goes out of it over a period of time.

- **Cash inflows** (receipts): cash sales, payments from customers who bought on credit, a bank loan paid in, the owners putting in capital, a grant, the sale of an asset.
- **Cash outflows** (payments): suppliers paid for materials or inventory, wages, rent, electricity, loan repayments and interest, tax, the purchase of machinery or vehicles.

The difference between them, **net cash flow**, decides how much cash the business holds. A business with enough cash to pay its bills when they fall due has good **liquidity**. One that cannot pay is **insolvent**, and its creditors can take it to court, even if it is selling plenty.

Cash is not profit. Profit is revenue minus costs for a trading period, shown on the income statement; a sale counts as revenue when it is made, even if the customer pays three months later. Cash is the money actually received and paid, at the moment it moves. A business can be profitable and still run out of cash (customers on long credit, a big equipment purchase, a build-up of inventory), and a loan brings in cash without adding a cent of profit. A cash flow forecast forecasts **cash**, never profit.

What a cash flow forecast looks like

A **cash flow forecast** is an estimate of a business's future cash inflows and outflows, usually month by month, and of the cash balance they will leave. It is a prediction, not a record: the figures are the owner's best guesses.

Ana runs Saltmarsh Kayak Hire as a sole trader. She plans to buy six new kayaks in April, before the summer season. Her forecast, in dollars:

	April	May	June	July
Cash inflows				
Hire fees	1,800	4,200	7,500	9,000
Owner's capital	5,000	0	0	0
Total inflows	6,800	4,200	7,500	9,000
Cash outflows				
New kayaks	9,000	0	0	0
Wages	1,200	1,800	2,600	2,600
Boathouse rent	900	900	900	900
Insurance	600	600	600	600
Marketing	1,000	500	300	300
Total outflows	12,700	3,800	4,400	4,400
Net cash flow	(5,900)	400	3,100	4,600
Opening balance	2,000	(3,900)	(3,500)	(400)
Closing balance	(3,900)	(3,500)	(400)	4,200

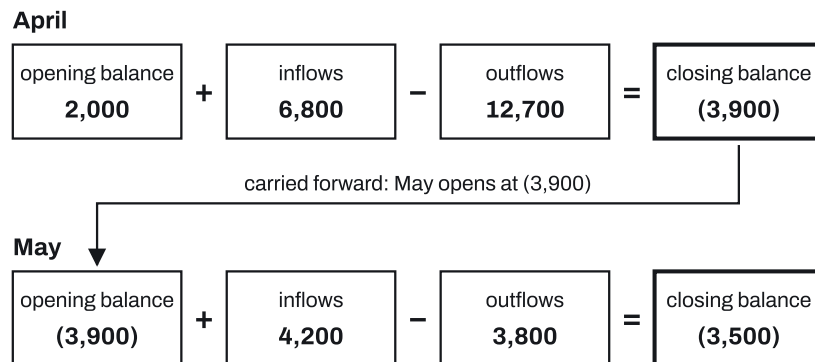
Every forecast has the same three blocks: inflows, outflows, then the balances. A figure in **brackets** is negative: (3,900) means the account is 3,900 dollars overdrawn. Exam tables often give figures in thousands (a heading such as "\$000"), so 12 means 12,000 dollars.

Opening and closing balances

Three rules work every forecast:

- **Net cash flow** = total inflows – total outflows. In April: $6800 - 12700 = -5900$, written (5,900).

- **Closing balance** = opening balance + net cash flow. In April: $2000 + (-5900) = -3900$.
- **This month's opening balance is last month's closing balance.** May opens at (3,900).



Only the **first** opening balance (the cash in the bank when the forecast starts) is new information. After that, each balance is carried forward. Leaving out the opening balance, or losing a minus sign, are the two classic slips.

Why businesses draw up a forecast

A forecast is a planning tool. Its purposes, each with the chain that makes it matter:

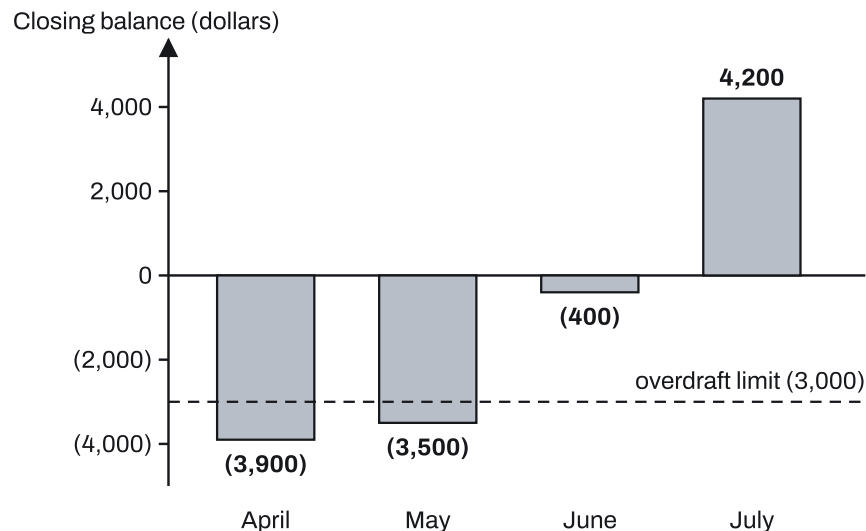
- **Early warning of a cash shortfall.** Ana can see now that she will be overdrawn in April, May and June. She has time to arrange an overdraft or change her plans, instead of discovering in May that the bank is refusing her rent and insurance payments, which could cost her the boathouse just as the busy season starts.
- **Planning finance: how much, and for how long.** The worst month tells her the size of overdraft she needs (3,900 dollars) and the first month back in credit (July) tells her when it can be cleared. Borrowing the right amount for the right time keeps interest down.
- **Supporting an application for finance.** Banks, grant givers and investors want to see that the business can repay them. A realistic forecast showing the balance returning to positive makes a loan or grant more likely, and possibly cheaper.
- **Planning what to do with surplus cash.** A forecast that shows money piling up lets the owner pay off debt, invest in equipment or put it on deposit, rather than letting it sit idle.
- **Seeing the cash effect of a decision before making it.** Expanding, buying equipment, hiring staff, or giving customers longer to pay: rewrite the forecast with the change and see what happens to the balance.
- **Monitoring and control.** Each month, actual cash is compared with the forecast. If customers are paying later than expected, or spending is running ahead, the gap shows up quickly and can be chased.

A forecast matters most for a **new business** (no past figures to rely on, no cushion of cash, and lenders who insist on seeing one) and for a **seasonal** business, whose cash comes in a few months and goes out all year.

Interpreting a forecast

When a question asks what a forecast shows, look for:

- **When the balance goes negative, how far, and for how long.** A short dip is easily covered by an overdraft; months of deep negatives point to a problem with the plan itself.
- **What causes it.** A one-off outflow (Ana's kayaks) is very different from outflows that are always bigger than inflows.
- **The pattern of inflows.** Rising sales, a seasonal peak, credit sales arriving a month or two after the sale.
- **The bank's limit.** Compare the worst balance with any overdraft the business has agreed.



Suppose Ana's bank has agreed an overdraft of only 3,000 dollars. The chart shows the problem at once: in April and May she needs more than the bank will lend. She can ask for a larger limit before April, or change the plan.

Amending a forecast

Amending means changing one estimate and recalculating everything after it, because every closing balance feeds the next opening balance. Ana finds she can **lease** the six kayaks for 400 dollars a month instead of paying 9,000 dollars in April. The kayak row becomes 400 in every month:

	April	May	June	July
Total inflows	6,800	4,200	7,500	9,000
Total outflows	4,100	4,200	4,800	4,800
Net cash flow	2,700	0	2,700	4,200
Opening balance	2,000	4,700	4,700	7,400
Closing balance	4,700	4,700	7,400	11,600

April's outflows fall from 12,700 to $12,700 - 9,000 + 400 = 4,100$, and the balance never goes negative, so she needs no overdraft. The price: over the four months she pays $400 \times 4 = 1,600$ dollars and owns no kayaks, and the lease payments carry on for as long as she uses them.

Amendments in exams come from the case: a customer paying late, sales lower than hoped, a new cost, a change of supplier's terms. Change the affected row, then redo net cash flow and every balance after it.

Limits of a forecast

- It is only an **estimate**. Sales, prices and costs can turn out differently, and the further ahead the forecast runs, the less reliable it is.
- A **new** business has no past figures to base it on, so its forecast is the least reliable just when it matters most.
- Things outside the business's control (a competitor's price cut, a change in the weather or in fashions, a rise in interest rates) can make it wrong quickly.
- It says nothing about **profit**, so it must be used alongside the income statement, budgets and break-even.
- It only helps if someone **acts** on it and updates it as real figures arrive.

Methods of improving cash flow

To improve cash flow, a business must change **when** or **how much** cash moves: bring cash in sooner or in larger amounts, or send it out later or in smaller amounts. Raising profit in the long run (better products, more motivated staff, higher productivity) helps eventually, but the quickest methods work on timing.

Method	How it helps cash flow	The drawback
Shorter credit terms for customers , or a discount for paying early	Cash from sales arrives sooner	Customers may switch to a rival offering longer credit; the discount cuts revenue
Debt factoring	Unpaid invoices are sold to a factor for most of their value at once	The factor keeps a fee, so less than the full amount arrives
Chasing late payers , invoicing promptly	Cash owed arrives on time	Takes staff time; pushing too hard can upset good customers
More cash sales (discounts, promotions, selling off old inventory)	Turns goods into cash quickly	Lower prices cut profit margins
Bank overdraft or short-term loan	Extra cash to cover a short gap	Interest; an overdraft can be called in; a loan must be repaid
Selling unused assets , or sale and leaseback	A lump of cash from something not needed (or still used)	Only possible once; leaseback adds rent for years
Delaying payments to suppliers (longer trade credit)	Cash stays in the business longer	Early-payment discounts lost; relations suffer; supplies may stop
Holding less inventory	Less cash tied up in stock on the shelves	Risk of running out and losing sales

Method	How it helps cash flow	The drawback
Leasing instead of buying equipment	No large outflow at the start	Usually costs more over the asset's life, and is never owned
Delaying capital spending or expansion	The big outflow moves to a later month	Growth is postponed; a rival may move first
Cutting overheads (marketing, office costs)	Smaller outflows every month	Cutting too deep can reduce future sales
Using and updating a forecast	Shortfalls are seen early enough to act	It is only as good as its estimates

No method is right for every business. The best one fits the cause of the problem: slow-paying customers call for credit control or factoring; a one-off purchase calls for leasing, a loan or a delay; a seasonal dip calls for an overdraft.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Fact or formula	Status
Cash flow: the money flowing into and out of a business over a period (receipts and payments)	Learn it
Cash flow forecast: an estimate of a business's future cash inflows and outflows, and the cash balances they leave, usually month by month	Learn it
Net cash flow = total cash inflows – total cash outflows	Learn it
Closing balance = opening balance + net cash flow	Learn it
Opening balance for a month = closing balance of the month before	Learn it
Missing opening balance = closing balance – net cash flow	Learn it
Missing inflow = closing balance – opening balance + total outflows – the other inflows	Learn it
In a cash flow forecast a negative figure is shown in brackets or with a minus sign, for example (4) or –4; the sign must be kept in the answer	Learn it
Profit is revenue minus costs for a trading period (income statement); cash is the money actually received and paid when it moves	Learn it

Fact or formula	Status
Improving cash flow: bring cash in sooner or in larger amounts, or pay cash out later or in smaller amounts	Learn it

How to do it

We have tagged 16 questions on this topic (2021–2026), on Papers 1 and 2. 2 of them have parts of more than one type, so the counts add up to 19.

Question type	Questions
Calculate a closing balance (or a missing figure) from a cash flow forecast table	5
Explain or analyse methods of improving cash flow	4
Explain or analyse the purposes, benefits or uses of a cash flow forecast	4
Evaluate how important cash flow forecasting is to a business's success	3
Define cash flow and tell cash apart from profit	3

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: using the business or industry in the question), **An** (analysis: a chain of causes and consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

1. Calculate a closing balance (or a missing figure) from a cash flow forecast table (5 questions)

Paper 2 (b)(i), [2] or [3]. The case gives a forecast with the early columns complete and the last column's net cash flow and balances left blank (sometimes years instead of months).

1. Write the formula: closing balance = opening balance + net cash flow (1).
2. Work out the last column's **net cash flow**: total inflows – total outflows (1).
3. Take its **opening balance** from the previous column's closing balance (1, or part of the second mark).
4. Add them, **keeping the sign**: a negative answer must be written with brackets or a minus sign. Dropping the sign costs a mark.
5. Keep the table's units: if the table is in \$000, an answer of (4) means minus 4,000 dollars; writing either is fine.

Variants:

- **No net cash flow row**: use closing = opening + inflows – outflows directly.
- **Working backwards** (a missing opening balance or a missing inflow, labelled X or Y): write the equation for that column, put in every figure you know, and solve for the unknown. Check by putting your answer back in.

- Show every step. A wrong final answer with correct working still earns the method marks, and the final mark is given on your own figures.

2. Explain or analyse methods of improving cash flow (4 questions)

Three sizes:

- **[3]**, one method (Paper 1 Section A, or Paper 2 for the case business): name the method (K), explain how it changes the timing or size of a cash flow (1), and on Paper 2 tie it to the case (1).
- **[5]**, Paper 1 with no case, asking in general how cash flow can be improved: marked by level. Explain two or three methods well (how each moves cash in sooner or out later), with a drawback; a list of names reaches only the lowest level.
- **[8]**, Paper 2 (c), two methods for the case business: each method gets **1 K + 1 App + 2 An**.

For the [8]:

1. **K**: name two different methods, ideally one that raises or speeds inflows and one that cuts or delays outflows.
2. **App**: use the forecast or the case: which month goes negative, what causes it (a one-off purchase, customers buying on credit, a seasonal dip) and how big the gap is.
3. **An**: a chain of two or more links: the method → cash arrives earlier or leaves later → the negative balance shrinks or disappears → no overdraft interest, bills and wages paid on time. A drawback linked back (customers lost to rivals, suppliers refusing credit, a factor's fee cutting profit) also develops the chain.

Stay on **cash**. A method that only raises profit in the long run, or a vague "increase revenue", is weak; becoming a public limited company to fix a short gap is unrealistic.

3. Explain or analyse the purposes, benefits or uses of a cash flow forecast (4 questions)

- **[8]**, two purposes or benefits: Paper 1 Section B (a), with no case, or Paper 2 for the case business. Each is worth **1 K + 1 App + 2 An**.
- **[2]**, one use, Paper 2: name the use (K) and link it to the case's figures (App).

For the [8]:

1. **K**: pick two **different** purposes from: early warning of shortfalls; planning the size and timing of finance; supporting a loan or grant application; planning the use of surplus cash; testing the cash effect of a decision such as expansion; monitoring actual cash against the forecast.
2. **App**: on Paper 2, use the table (the negative months, the size of the worst balance, when it turns positive) and the business's situation (new, seasonal, expanding). With no case, give an example of a business it would help.
3. **An**: carry each one to a consequence: shortfall spotted early → overdraft arranged in good time → every bill met when it falls due → the business stays solvent. Or: forecast shown to the bank → bank confident of repayment → loan granted, perhaps at a lower rate → the expansion can go ahead.

Label them ("The first purpose is ... The second purpose is ..."). Getting a loan is only one purpose; answers that never go beyond it, or that say a forecast predicts profit, score poorly.

4. Evaluate how important cash flow forecasting is to a business's success (3 questions)

Paper 1 Section B (b) [12] (a [20] essay in 2021). The question names a kind of business (often a new or fashion-related one) and asks you to weigh cash flow forecasting against the other things it does, or a forecast against other financial documents. Marks: 2 K, 2 App, 2 An, 6 Eval.

1. **K**: what a cash flow forecast is, and what "success" might mean (survival, profit, growth, reputation).
2. **App**: use the features of **this** kind of business throughout: its seasons, its costs, how its customers pay, how quickly its market changes, whether it is new.
3. **An**: why forecasting helps it (early warning → finance in place → no insolvency; lenders reassured; plans tested before money is spent), then why other things matter too: product quality and design, market research and spotting trends, marketing, cost information and break-even, the income statement, skilled staff.
4. **Eval**: decide **for this business** how important forecasting is compared with at least one other activity, and say what it depends on: how new it is, how uneven its cash flows are, how accurate its estimates can be, whether managers act on the forecast. A strong line: forecasting cannot make a business succeed on its own, but a business that runs out of cash fails however good its products are.

5. Define cash flow and tell cash apart from profit (3 questions)

- [3] explain the term cash flow (Paper 2): 1 K for the meaning (money into and out of a business, receipts and payments), then 2 App: who pays and who is paid, its link to liquidity or solvency, to a forecast, or how it differs from profit, or a case example. Just repeating "the flow of cash" scores nothing.
- [3] explain the difference between cash and profit (Paper 2): profit is revenue minus costs over a trading period, on the income statement (1); cash is the money actually in and out, a current asset (1); and a sentence that states the **difference** clearly (1), such as "a credit sale adds to profit now but brings in no cash until the customer pays".
- [12] essay judging the claim that small businesses fail mainly because they confuse cash and profit: K for both terms; An for how a profitable firm runs out of cash (credit sales, inventory, tax on paper profits) and fails; Eval weighing this against other causes (poor management, too few customers, weak planning, not enough start-up capital), noting that many of these also show up first as a cash problem.

Worked examples

Example 1

Skyline Drone Surveys films building sites for construction firms. Its cash flow forecast (\$000):

	October	November	December
Cash sales	6	5	4
Payments from credit customers	3	8	7
Total inflows	9	13	11
Wages	7	7	7
Drone lease	2	2	2
Insurance and licences	1	0	3
Software	1	1	1
Travel	2	2	1
Total outflows	13	12	14
Net cash flow	(4)	1	
Opening balance	2	(2)	
Closing balance	(2)	(1)	

(a) Explain the term cash flow. [3]

(b) Calculate Skyline's forecast closing balance for December. [3]

(a) Cash flow is the money received by a business and the money it pays out over a period (K). For Skyline, the inflows are the fees construction firms pay for surveys, some at once and some weeks later, and the outflows include pilots' wages and the lease on its drones (App). Whether inflows keep up with outflows decides whether Skyline can pay these bills on time, and the forecast shows it will not have enough cash on its own from October (App).

(b) Closing balance = opening balance + net cash flow (1).

Net cash flow for December: $11 - 14 = -3$ (1). Opening balance for December = November's closing balance = -1 .

Closing balance: $-1 + (-3) = -4$, so **(4)**, minus 4,000 dollars (1).

Example 2

StageCraft Event Hire is a new partnership that hires out stages, lighting and sound systems for outdoor festivals. Its forecast for its first three months (\$000):

	March	April	May
Opening balance	X	(14)	(9)
Hire fees received	6	18	Y
Equipment bought	22	0	0

	March	April	May
Running costs	8	13	13
Closing balance	(14)	(9)	12

(a) Calculate the values of X and Y. [4]

(b) Analyse two benefits to StageCraft of producing a cash flow forecast. [8]

(a) For March: $X + 6 - 22 - 8 = -14$ (1), so $X = -14 + 30 - 6 = 10$: an opening balance of 10,000 dollars (1).

For May: $-9 + Y - 13 = 12$ (1), so $Y = 12 + 13 + 9 = 34$: hire fees of 34,000 dollars (1).

Check: $10 + 6 - 30 = -14$ and $-9 + 34 - 13 = 12$.

(b) The first benefit is an early warning of a cash shortfall (K). StageCraft's forecast shows it will be 14,000 dollars overdrawn at the end of March, because it pays 22,000 dollars for equipment before the festival season brings in much (App). Because the partners know this before March, they can agree an overdraft of at least 14,000 dollars with the bank in advance (An), rather than finding in April that the bank is refusing payments to the haulage firm that moves their equipment, so they miss festival set-up dates, which could mean cancelled bookings and a damaged reputation in their very first season (An).

The second benefit is that it helps StageCraft persuade a lender (K). As a new partnership it has no trading record, but the forecast shows the account back in credit by 12,000 dollars at the end of May once festival hire fees arrive (App). A bank that can see when and how the overdraft will be cleared sees less risk (An), so it is more likely to lend and may charge a lower rate of interest, keeping StageCraft's costs down while it builds up its customers (An).

Each benefit earns K + App + two links of analysis: $2K + 2App + 4An = 8$.

Example 3

BrightSpan Cleaning cleans offices for large companies. It invoices them 48,000 dollars a month in total and gives them 60 days to pay. Its wages and cleaning materials must be paid every month. It plans to buy three floor-scrubbing machines for 9,500 dollars each in February, when its forecast shows a closing balance of (31,000) dollars. A supplier would instead lease it the machines for 650 dollars a month each, and a factoring company has offered to buy its unpaid invoices, paying 80% of their value at once for a fee of 3% of their value.

Analyse two methods BrightSpan could use to improve its cash flow. [8]

Working (not asked for, but strong application): buying costs $3 \times 9500 = 28500$ dollars at once; leasing costs $3 \times 650 = 1950$ dollars a month. In February, leasing cuts outflows by $28500 - 1950 = 26550$ dollars, so the closing balance would be $-31000 + 26550 = -4450$, that is (4,450). At any time BrightSpan is owed about two months of invoices, $2 \times 48000 = 96000$ dollars.

First method: lease the machines instead of buying them (K). Paying 1,950 dollars in February instead of 28,500 dollars cuts that month's outflows by 26,550 dollars, so the forecast closing balance improves from (31,000) to (4,450) dollars (App). With a much smaller overdraft BrightSpan pays far less interest (An), and the monthly fee can be met out of the money its office contracts bring in, so wages are paid on time. The drawback is that over two years it would pay $1950 \times 24 = 46800$ dollars, more than the 28,500 dollar price, and still own no machines (An).

Second method: debt factoring (K). Because its customers take 60 days to pay, BrightSpan is always waiting for about 96,000 dollars while paying its cleaners every month (App). The factor would pay 80% of that at once, $0.8 \times 96000 = 76800$ dollars, which would more than clear the February overdraft (An), so the business could pay for its materials and wages from its own cash instead of an expensive overdraft. But the fee, $0.03 \times 96000 = 2880$ dollars, cuts profit, and the large companies it cleans for would now be chased for payment by the factor, which some may dislike enough to look for another cleaning firm (An).

Example 4

Tropica Farms is a family business that grows mangoes for export. Its yearly cash costs, for workers, fertiliser, water and packing, are 540,000 dollars, paid at about 45,000 dollars a month. The whole crop is picked between November and January, and the export buyers pay 45 days after the fruit is shipped. Its yearly revenue is about 600,000 dollars, but a storm or a disease can damage a harvest.

Evaluate the importance of cash flow forecasting, compared with other activities, to the success of Tropica Farms. [12]

Knowledge. A cash flow forecast estimates the cash a business will receive and pay out each month and the balance left at the end of each month (K). Success for a farm could mean surviving bad years, making a steady profit and keeping its buyers (K).

Why forecasting matters here. Tropica's costs go out every month, but almost all its cash arrives between December and March. From April to November, about 8 months, it pays out $8 \times 45000 = 360000$ dollars with almost nothing coming in (App). Although the farm makes a profit of $600000 - 540000 = 60000$ dollars a year, it could still run out of cash before the harvest money arrives (App). A forecast shows the size of that gap months ahead, so the family can arrange an overdraft or a seasonal loan in good time (An); without it, the fertiliser and water bills could go unpaid in the months before picking, suppliers would stop deliveries, and the trees would give a smaller crop, so the profit would never be earned (An). The forecast also lets the bank see that the borrowing will be repaid once the buyers pay (An).

Why other activities matter too. The forecast depends on estimates of the harvest and of export prices, which a storm or a fall in world mango prices can upset, so it can never be exact (Eval). The size and quality of the crop decide the revenue in the first place: pest control, irrigation and careful picking may matter more, because a poor crop cannot be rescued by good cash planning (An). Finding and keeping reliable export buyers, and knowing the farm's costs per box, are also needed for a profit at all (An).

Judgement. For Tropica, cash flow forecasting is the most important **financial** activity, because a 360,000 dollar gap between spending and receiving is far larger than its 60,000 dollar yearly profit, and one unplanned cash crisis could close a profitable farm (Eval). But it is not the most important activity overall: the quality of

the crop and the buyers it can sell to create the cash that the forecast only plans for (Eval). How important forecasting is depends on how reliable the harvest is and how patient its bank is; in a year after a storm, when the gap is longest and the bank most cautious, the forecast becomes vital. On balance, forecasting is essential for Tropica's survival, while growing and selling good fruit is what makes it succeed (Eval).

The marks: 2 K, 2 App, 2 An, and 6 Eval for a supported judgement in the context of this mango farm that compares forecasting with other activities and says what the answer depends on.

Common mistakes

- **Dropping the minus sign.** A closing balance that is negative must be written in brackets or with a minus sign; a correct number without its sign loses a mark (June 2023).
- **Leaving out the opening balance.** Net cash flow is not the closing balance: carry last month's closing balance forward and add it (June 2023).
- **No working.** If the final answer is wrong, only the working can earn the method marks, so write the formula and each figure (June 2023).
- **Thinking a forecast predicts profit,** or treating its figures as certain. It is an estimate of **cash** only (June 2022, June 2023).
- **Only one purpose.** Many answers stop at "showing the bank" or "paying wages on time". Learn the full list: early warning, planning finance, persuading lenders, using surplus cash, testing decisions, monitoring (June 2023).
- **Methods that improve profit, not cash flow.** In a cash flow question, aim at the timing of cash: customers paying sooner, suppliers paid later, leasing, factoring. Vague "raise revenue" or "cut costs" answers mix up cash and profit (March 2026).
- **Unrealistic fixes,** such as going public to solve a short cash gap: it is slow, costly, and itself uses cash (March 2025).
- **Ignoring the case data.** The forecast in the case shows which month goes negative and why; answers that do not use it lose application marks (March 2026).
- **Generic essays.** An essay about forecasting that never uses the features of the business named in the question cannot reach the application or top evaluation marks (March 2023, June 2021).
- **"The flow of cash"** as a definition repeats the term and earns nothing; say money received and paid out (receipts and payments).

How to get the marks

- **Command words.** *Calculate:* formula, figures, answer with its sign. *Explain:* a point, then how or why, with the case if there is one. *Analyse:* two points, each developed through a chain to a consequence; no judgement needed. *Evaluate:* both sides, then a decision for the business in the question, saying what it depends on.

- **Calculations [2]–[3]:** formula (1), correct net cash flow or figures (1), answer with its sign (1). The last mark is given on your own figures if one earlier step went wrong (own figure rule), so a slip costs one mark, not three.
- **Explain the term [3]:** one mark for the meaning, two for developing it: who pays whom, liquidity, the link to a forecast, how cash differs from profit, a case example.
- **Analyse two [8]:** label each one; give K, App and a chain of at least two links each. Finish each chain with an effect on liquidity, survival, the cost of borrowing or the business's plans.
- **Evaluate [12]:** 2 K, 2 App, 2 An, 6 Eval. The top band needs a supported judgement **in context**: about this business, weighing forecasting against at least one other activity, saying what it depends on. Judgements can come anywhere in the essay, not only at the end.
- **Use the numbers.** The worst balance, the month it turns positive, the size of a one-off payment, the credit period: quoting them is strong application.
- **Be clear about cash and profit.** Whenever it fits, say which one you mean; examiners reward answers that keep them apart.

Quick check

1. A café's opening balance is 1,500 dollars. Its forecast inflows for three months are 8,200, 7,400 and 9,600 dollars, and its outflows are 9,100, 8,300 and 7,900 dollars. Calculate the net cash flow and closing balance for each month.
2. A business's forecast for one month shows an opening balance of 1,100 dollars, total outflows of 12,300 dollars and a closing balance of (2,600) dollars. Calculate its total inflows.
3. Explain the difference between cash and profit. **[3]**
4. Does each action improve a business's cash flow over the next month? (a) letting customers take 90 days to pay instead of 45; (b) selling an unused delivery van; (c) buying a whole year's packaging at once to get a bulk discount; (d) agreeing with a supplier to pay six weeks after delivery instead of on delivery; (e) paying off its overdraft early.
5. Explain one disadvantage to a business of delaying payments to its suppliers. **[3]**

Answers

1. Month 1: net $8200 - 9100 = -900$, closing $1500 - 900 = 600$ dollars. Month 2: net $7400 - 8300 = -900$, closing $600 - 900 = -300$, that is (300) dollars. Month 3: net $9600 - 7900 = 1700$, closing $-300 + 1700 = 1400$ dollars.
2. Closing = opening + inflows – outflows, so inflows = $-2600 - 1100 + 12300 = 8600$ dollars.
3. Profit is revenue minus costs for a trading period, shown on the income statement (1). Cash is the money actually received and paid out, at the time it moves (1). So they can differ: if a gym takes out a bank loan of 20,000 dollars, its cash rises by 20,000 dollars but its profit does not change, because a loan is not revenue (1).
4. (a) No: cash from sales arrives six weeks later. (b) Yes: a cash inflow from an asset it does not need. (c) No: a large outflow now, even though it saves money later. (d) Yes: the outflow moves six weeks later. (e) No: cash goes out sooner than it had to (though it saves interest).
5. The business may lose discounts for paying promptly (K). The supplier may also stop giving it credit or put its orders to the back of the queue, so materials arrive late (1), production or sales are held up, and the business ends up with less cash coming in, which undoes the benefit of paying later (1).

Past questions to try

- **9609/22/M/J/23 Q1**: part (b)(i), a closing balance that comes out negative after two months of negative balances.
- **9609/21/O/N/21 Q2**: part (b), working backwards to a missing opening balance and a missing sales figure, then one use of the forecast.
- **9609/21/M/J/22 Q1**: parts (a)(ii) and (b), the difference between cash and profit, a missing closing balance and two benefits of a forecast for a new business.
- **9609/13/O/N/22 Q3**: how a business could improve its cash flow, with no case.