



## Chapter 13 – Finance – Cash Flow Forecasts

## 2015 Q6 (C)

- (i) Explain the reasons Amrod Ltd would prepare a cash flow forecast.  
 (ii) Calculate the figures represented by the letters **A**, **B** and **C** on the cash flow forecast. (**Show your workings in your answer book.**)  
 (iii) Explain how Amrod Ltd might deal with the financial problem identified in this cash flow forecast. (25 marks)

**MS: 2 @ 5m (2+3); 3 figures @ 2+3(2+1)+2m; 8m (4(2+2)+4(2+2))**

Cash Flow Forecast for Amrod Ltd for the 4<sup>th</sup> Quarter of 2015

	October €	November €	December €	Total €
Total Receipts	70,000	180,000	90,000	340,000
Total Payments	100,000	165,000	120,000	385,000
Net Cash	-30,000	15,000	<b>B</b>	-45,000
Opening Cash	20,000	<b>A</b>	5,000	<b>C</b>
Closing Cash	-10,000	5,000	-25,000	-25,000

**Improves Financial Control**

A cash flow forecast acts as a financial control mechanism that can be used to **measure actual cash flow against planned cash flow** encouraging Amrod Ltd to plan its finances **sensibly** and **live within its means** and not to **overtrade** (e.g. buy/sell too much on credit)

It helps avoid cash flow problems as costs are considered in advance, so they can ensure it has sufficient funds when the time comes.

**Helps Avoid Deficits**

It will help Amrod Ltd identify periods of time in the future when the business will have an **excess of expenditure over income** i.e. a **deficit**.

They can then take **corrective action**, **assessing** the **best methods** to deal with the cash shortfall.

**Helps Highlight Times of Surplus**

It will help Amrod Ltd identify periods of time in the future when the business will have a **surplus of income over expenditure**.

Amrod Ltd can then make **plans** to place these surplus funds on **deposit** with a **financial institution** or make **expansion decisions** e.g. plan investments.

**Help Access Finance**

## The Business Guys

It will help Amrod Ltd **gain access to finance** from financial institutions as the cash flow forecast is an **integral part of the business plan** given to banks and other potential investors.

A professional cash flow forecast supports **applications for loans and grants**.

*\*Only 2 were needed but four given for illustrative purposes.\**

(ii)  $A = (\text{€}10,000) = 2\text{m}$

$B = (\text{€}30,000) = 2\text{m} (90,000 - 120,000) = 1\text{m}$

$C = \text{€}20,000 = 2\text{m}$

(iii) **Financial Problem:**

The deficits months are October and December.

**Avail of a short-term source of finance:**

Amrod Ltd could arrange a **bank overdraft facility** with its bank to finance problem months where the business is running a **deficit**. They can then access more money than is in their account, but the **rate of interest is usually high**.

Other short term sources could be considered such as **trade credit (delaying payment to creditors/ seeking an extension period of credit from creditors)**.

**Adjust receipts**

Amrod Ltd could try to **increase receipts (revenue)**.

They could try to create a **better promotion campaign**, try **lowering prices and selling more**, or try to **increase cash sales or reduce credit periods for debtors**.

**Adjust payments**

The business could **decrease its cash payments** by **sourcing cheaper suppliers, restructuring loan repayments or asking employees to take a wage decrease**. By moving €10,000 of payments from October to November, the company would break even at the end of October etc.

**2013 Q5 (C)**

(i) Outline **two** reasons why a household should prepare a cash flow forecast.

(ii) Illustrate how a household can overcome cash flow problems. (20 marks)

*\*Same as above except linked to household not business\**

## 2009 Q6 (C)

*"Cash Flow is the lifeblood of any business and its management is critical to business survival."*

In September 2008, Buttercup Garden Centre prepared the following Cash Flow Forecast.

Cash Flow Forecast of Buttercup Garden Centre				
	October	November	December	Total
	€	€	€	
<b>Receipts</b>				
Cash Sales	12,500	9,500	10,000	32,000
Credit Sales	2,000	1,500	3,500	7,000
<b>Total Receipts</b>	<b>14,500</b>	<b>11,000</b>	<b>13,500</b>	<b>39,000</b>
<b>Payments</b>				
Cash Purchases	1,000	2,500	4,000	7,500
Credit Purchases	5,000	2,000	1,000	8,000
Wages	6,000	6,000	7,500	19,500
Equipment	12,000	-	-	12,000
<b>Total Payments</b>	<b>24,000</b>	<b>10,500</b>	<b>12,500</b>	<b>47,000</b>
<b>Net Cash</b>	<b>(9,500)</b>	<b>500</b>	<b>1,000</b>	<b>(8,000)</b>
Opening Cash	3,000	(6,500)	(6,000)	3000
Closing Cash	(6,500)	(6,000)	(5,000)	(5,000)

- (i) Explain the benefits to Buttercup Garden Centre of preparing a Cash Flow Forecast.
- (ii) Based on the information provided above, outline how Buttercup Garden Centre could improve the Cash Flow position of its business. (20 marks)
- MS: 2 @ 5 Marks (2+3) 2 @ 5 Marks (2+3)**

(i) Same points as 2015 Q6 (C)

**(ii) Purchase of Equipment – Capital Expenditure**

Buttercup Garden Centre plans to purchase and pay for equipment out of Cash Flow in October 2008. Equipment is an item of capital expenditure and will most probably be used in the business over a period of a number of years. Buttercup should consider taking out a **medium term loan** to pay for the equipment – this would ease their Cash Flow position considerably, as repayments can be made **monthly** over a few years rather than **one payment**.

**Arrange A Bank Overdraft**

Buttercup Garden Centre will need to **negotiate a bank overdraft** with its local bank. If trade continues as per the month of December, and there are no changes in overheads or other unforeseen expenses it will take **at least another five months to clear the forecasted deficit of €5000**. An overdraft will allow them to access more cash than is in their current account.

**Control of Overheads**

**Wages increase from €6000 to €7500 (a 25% increase €1,500 of €6,000)** from October to December, yet sales fall in the same period.

Buttercup Garden Centre needs to **review and control** the amount of money spent on **wages**.

**2017 – Short – Q5**

Study the cash flow forecast below and fill in the figures represented by the letters A, B, C, D and E.

Cash flow forecast for Intenso Ltd, for the 3rd quarter of 2017				
	July (€)	August (€)	Sept (€)	Total (€)
Total Receipts	20,000	A= 25,000	12,000	57,000
Total Payments	14,000	17,000	15,000	46,000
Net Cash	6,000	8,000	B=(3,000)	C=11,000
Opening Cash	5,000	11,000	19,000	D=5,000
Closing Cash	11,000	19,000	16,000	E=16,000

**2019 Q5 (A)**

Read the information supplied and answer the questions which follow.

*Vodafone Retail Ireland has blamed lower demand for new mobile handsets for a 9% drop in sales revenues at its retail network. The Irish Times January 2019*

Outline the effects a decrease in sales revenue will have on a business.

**MS: 8(4+4), 7(4+3)**

**Reduction in profits**

Investors may be unhappy as profit levels fall, so dividends and share price will likely fall also. Harder to raise more equity capital for potential expansion.

**Employee numbers may have to be reduced**

Redundancies may be required as less employees will be needed if sales are smaller. This will lower staff morale and may lead to industrial action disrupting business activity.

**Sales Promotions may need to be increased**

Short term gimmicks may need to be introduced to boost sales again, but at lower profit margins for the business.

*Others: Identify alternative suppliers, Product modifications (lower quality), Market Research – new markets required*

## Chapter 13 – Finance – Sources of Finance

## 2014 Q6 (C)

- (i) Explain the term 'short-term finance'  
(ii) Outline two sources of short-term finance Sarah may consider to meet her working capital needs. (20 marks)

**MS: 4; 2 x 8 (4+3+1) - Name, explain, reference to Sarah's usage**

(i) Short-term finance is finance available for a **period of up to one year**. It should be repaid within twelve months and **should be used for short term needs** (i.e. spent on things that will be used up within a year e.g. **stock**)

(ii) **Bank Overdraft**

This is a facility offered by a bank that allows current account holders to withdraw more money from their account than they actually have in it. Interest is charged on the outstanding balance on a daily basis and is generally expensive.

Sarah could use an overdraft facility to **purchase stock** or **pay the wages of part-time staff**.

**Accrued Expenses**

This source of finance **frees up money by delaying the payment of regular bills** such as **utilities, rent** or **insurance**.

This would free up cash for Sarah to **pay for supplies** which in turn could be sold allowing these bills to be paid later.

**Trade Credit**

Sarah may **buy stock for resale on a "buy now and pay later" basis**. The amount of credit available may be dependent on her **reputation** and **creditworthiness**.

There is **no direct charge** but cash discounts can be sacrificed if Sarah chooses to **buy raw materials and stock on credit**.

**Other: Factoring Debts**

2019 Q5 (C)

Describe **two** distinct situations requiring **short-term** finance for a start-up business **and** explain the most appropriate source of short-term finance in **each** situation.

MS: 2@10 (4+3+3)

### Paying wages of staff

A **bank overdraft** can be used, as it allows the business to pay the wages by going in to a negative balance in their current account / when they don't have the cash available in their bank account.

### Paying for stock

A business can buy using **trade credit** where they get the goods now and then pay at a later date e.g. 28 days. They will need to negotiate terms and a good reputation helps make them more credit worthy.

### Paying utility bills

A business can delay paying some bills, called **accrued expenses**, so they can use this cash to pay for other bills, and then when they receive more money in, they can pay off the late bill, but should look to avoid getting any fines for paying too late or not paying and losing service of the utility. E.g. having their internet service disconnected.

5) Paying employee wages 4  
 A start up business may not have enough revenue yet so should arrange a bank overdraft in their current account so they can spend more money than they currently have to pay their staff. 3



Excerpt from 'Getting A H1 In Leaving Cert Business' reviewing my 2019 LC script where I scored a H1 – available now in our store, use **NOTES10** for 10% off



## Chapter 13 – Finance – Sources of Finance

## 2010 Q6 (C)

- (i) Discuss the factors that should be considered when choosing between different sources of finance.
- (ii) Analyse **two** appropriate sources of finance for acquiring an additional delivery van at 'Marie's Pizzas'. (30 marks)
- MS: 3 @ 5 marks (2+3); 8 marks (2+3+3) + 7 marks (2+3+2)**

(i) 1. A business should try to obtain the **cheapest source of finance available**. The **rate of interest** is of great importance. All loans advertised by financial institutions should quote the **APR (Annual Percentage Rates)** and should be examined for **additional fees** when making the choice.

**2. Sources of finance must be matched with its purpose** e.g. a long term business **expansion** plan should not be financed by a **bank overdraft**. Assets which are going to last a long time are paid for with long term finance.

**3. Issuing new voting shares (Equity Capital through Ordinary Share Capital)** in a company could lead to a change of **power/control**. The use of loan capital (**Debt Capital through Long Term Loans**) will not affect voting control but financial institutions may take assets as collateral.

**4. Lenders often seek security/collateral before giving finance.** Sometimes the **borrower may not have enough assets to give as security, which can then limit the sources of finance available.**

**(ii) Medium Term Loan**

A medium term loan is obtained for a period of **one to five years**. **Interest** must be paid back in **agreed installments** (with the principle) but it is **tax deductible**. The bank may require **security (collateral)** or **personal guarantees** to ensure the loan is repaid.

**Leasing**

This involves **renting** rather than **purchasing** the asset. The business will **never get to own the asset**, it will only ever get the use of the asset. Payments **may be offset against tax**. **No security is required**, as if the business can no longer make payments, use of the asset is withdrawn. While it costs more than cash purchase it **helps a businesses cash flow**.

**Other: Hire Purchase**

## 2017 Q7 (C)

Discuss the factors a business should consider when choosing a source of finance. (20m)

*Answered in 2010 Q6 (C) (i) on previous page*

## 2018 Q4 – Short

**Column 1** is a list of finance terms. **Column 2** is a list of possible explanations for these terms. (One explanation does not refer to any of these finance terms.) **MS: 3+2+2+2+1**

1.	Leasing	A.	A facility on a current account that allows you to access funds to an agreed limit above your actual balance.
2.	Hire Purchase	B.	A financial contribution given by an organisation for a specified purpose, provided certain conditions have been met.
3.	Overdraft	C.	Selling a trade debt to a third party at a discount.
4.	Grant	D.	Purchasing an asset by installments over time.
5.	Trade Credit	E.	Renting an asset but never owning it.
		F.	Receiving goods from suppliers and paying for them later.

1E; 2D; 3A; 4B; 5F

2014 Q6 (B)

Outline three factors that Sarah's bank may consider when assessing her bank loan application. (15 marks)

MS: 3@5 (2+3)

### Credit History

The **creditworthiness** of the applicant would be considered. Their **credit history** and **record** in terms of **repayment** of previous loans will be reviewed. Any **bad debt history** Sarah might have had would **negatively** affect her loan application as it shows she would have struggled to repay previous debt.

### Capacity To Make Repayments

The business' **ability** to make **profits** will be reviewed. **Revenue** will be compared to **costs** in a **cash flow statement** and the **current economic climate** would be considered e.g. Brexit if she was trading with the UK. Sarah will be expected to provide a **business plan** outlining **predicted profits**.

### Collateral Available

A **valuable asset** such as **premises** will be **required** as **security** for the loan. In the event of a **default** the bank will be able to sell the **asset to recover its loan**.

Sarah would usually need to offer an asset as security to secure a loan.

*Others: Size of the loan/ Term length (if Sarah was old); Purpose (e.g. necessary or not? expansion); Level of own investment/ Grants received/due etc...*

**2020 Q6 (A)** Read the information supplied and answer the questions which follow.

**Gym Culture**

Dan used a bank loan to finance the setting up of a gym near a local university in 2010. He wanted to offer a no-contract, pay-as-you-train option to students while also offering personal programmes. In 2018 he opened two new gyms. He hired five full-time staff and now offers classes aimed at men and women who are preparing for a special event like a wedding. He also offers buggy bootcamp classes for parents of new babies. Dan believes employee empowerment has been the key to his success.

- (i) Illustrate with reference to Gym Culture what a niche market is
- (ii) Outline the factors Dan's bank would consider before granting a loan application.

**MS: (ii) 2@5(3+2) 1@4m(3+1)**

**(ii) Creditworthiness:**

The bank will look at his **credit history** and his **record in terms of repayment of previous loans**. Any **bad debt history** will affect his loan application negatively.

**Capacity to repay the loan:**

Dan will be expected to provide a **business plan** outlining his trading history and predicted profit trends for the short and medium term, where a bank can assess if it is likely he will succeed and that **his cash flow** will be able to include repayments.

**Amount /purpose of the loan/Time period for the loan:**

The larger the loan amount required the **riskier** it is for the bank in terms of default. As a consequence, the loan application may be affected. Furthermore, it will be expected that the loan application is for a **productive purpose e.g. business expansion**, so that it will go towards increasing revenue to be used to pay the loan back.

**Availability of Security:**

A valuable asset such as premises will be required as **collateral** for the loan. In the event of a default the bank will be able to sell the asset to recover its loan.

**Other: Level of own investment /Grants etc**