Grade -9
BUSINESS STUDIES
CHAPTER: 22
Cash-flow forecasting and working capital

<u>The importance of cash and of cash-flow forecasting</u>

Cash – is a liquid asset immediately available for the business to use and spend.

<u>Problems for the business if it has too little cash</u>

Can't pay employees and suppliers
Production of goods stops
Liquidation (business stops and sells assets to pay debts)
Cash flow – money going into and out of a business over a period of time

Examples of cash inflow include
Sales of products and services
Money received from bank loans and sale of assets
Capital raised from selling shares

Examples of cash outflow
Purchasing of stock/inventory
Buying assets such as buildings, machinery etc..
Employee wages and salaries

<u>Cash flow cycle</u>

Cash is needed by the business for operation -> Products are produced -> Products sold -> Customers pay cash to the business -> REPEAT

Cash flow forecast – Estimate of future cash inflows & outflows of the business and shows expected balance at the end of each month.

Why do businesses need cash flow forecasts?
To startup the business
To show bank manager to get bank loan approved
Manage cash flow
Businesses shouldn't have too much cash in bank account as it could've been used in better ways e.g. expanding the business, investing, etc…

<u>Simple Cash flow forecast</u>

Net cash flow = Cash inflow – Cash outflow

Examples of how businesses can solve short term cash flow problems

Apply for a bank loan – Businesses can quickly borrow money from the bank, however, interest will have to be paid.
Delay or cancel plans to purchase new equipment – Delaying or canceling plans to purchase new equipment such as new machines may significantly reduce cash outflow. However, this is bad for the business in the long term as new machines can increase the efficiency of the business.
Purchasing supplies on credit – This means paying their suppliers at a later date (delays cash outflow). However, some suppliers may not allow this or may only give discounts to customers who don't buy on credit.
Only sell in cash, not credit – Businesses can choose to only sell to customers in cash, this means that the business will get their money immediately. However, customers may buy from competitors that sell on credit

Working capital

Working capital – Capital (money) available for a business to pay for day to day operations

Working capital = current assets – current liabilities

Businesses need sufficient working capital to

Pay employee wages and salaries
Figure out if they are in a good financial position to purchase supplies that are currently on sale (e.g. Suppliers may give discounts to customers that pay by cash not credit)
Ensure they have enough cash for day to day operations
Pay debts