

	<u>June</u>	<u>July</u>	<u>August</u>
Opening Balance	200	300	430
Receipts (also known as "Cash in")			
Sales	500	600	800
Total Receipts	500	600	800
Cash Available	700	900	1230
Payments (also known as "Cash out")			
Purchases	250	300	400
Advertising	100	120	120
Email / Internet	50	50	50
Total Payments	400	470	570
Closing Balance	300	430	660

Task 1

Jenni Taylor is setting up a new business from her parents' garage as a florist and has quite a few orders for upcoming weddings. She wants to make sure that she has enough cash coming in to cover her expenses. Jenni has created a basic 3-month cash budget to help her.

Look at Jenni's 3 month cash budget forecast and answer the questions below.

		Your Answer
1	How much cash did Jenni start with at the beginning of June? (opening balance)	
2	How much does Jenni expect to spend in June? (total payments)	
3	What is Jenni's closing balance at the end of June?	
4	What is Jenni's opening balance at the beginning of July?	
5	What is Jenni's closing balance at the end of July?	
6	What is Jenni's opening balance at the beginning of August?	
7	How much cash / money in bank should Jenni have at the end of August?	

Cash Budgets - Tasks

	£	£	£
	<u>September</u>	<u>October</u>	<u>November</u>
Opening Balance	150	60	40
Receipts (also known as "Cash in")			
Sales	200	220	300
Total Receipts	200	220	300
Cash Available	350	280	340
Payments (also known as "Cash out")			
Purchases	150	150	200
Advertising	100	50	50
Email / Internet	40	40	40
Total Payments	290	240	290
Closing Balance	60	40	50

Task 2

Jamie Watson is setting up an on-line business from home selling novelty party items. He wants to make sure that he has enough cash coming in to cover his expenses. Jamie has carried out some market research and has a good idea of his predicted sales for the first 3 months. Jamie has also created a basic 3-month cash budget to help him.

Look at Jamie's 3-month cash budget forecast and answer the questions below.

		Your Answer
1	How much cash did Jamie start with at the beginning of September? (opening balance)	
2	How much does Jamie expect to spend in October? (total payments)	
3	What is Jamie's closing balance at the end of October?	
4	What does Jamie expect his sales to be in October?	
5	How much does Jamie expect to spend on email / internet every month?	
6	How much cash should be available in November?	
7	What is Jamie's opening balance at the beginning of October?	

Cash Budgets - Tasks

	£ March	£ April	£ May
Opening Balance	400	1,090	2,330
Receipts (also known as "Cash in")			
Sales	5,000	5,750	6,000
Total Receipts	5,000	5,750	6,000
Cash Available	5,400	6,840	8,330
Payments (also known as "Cash out")			
Rent	850	850	850
Purchases	3,300	3,500	4,000
Insurance	75	75	75
Mobile phone	55	55	55
Email / Internet	30	30	30
Total Payments	4,310	4,510	5,010
Closing Balance	1,090	2,330	3,320

Task 3

Marcus Forrest is a self-employed joiner and has just rented a workshop in a local business park. As well as purchases for materials, insurance, mobile phone charges and internet subscription he now has rent to think about. Marcus needs to make sure that enough money is coming in over the next 3 months to cover all his costs.

Look at Marcus's 3-month cash budget forecast and answer the questions below.

		Your Answer
1	What is Marcus's monthly rent going to be?	
2	How much does Marcus pay for his insurance per month?	
3	How much cash does Marcus expect to have available in April?	
4	How much does Marcus expect to pay for his materials (purchases) in May?	
5	What is the closing balance at the end of April?	
6	What is the opening balance at the beginning of May?	
7	How much money did Marcus have in his bank account on 1st March?	
8	How much money does Marcus expect to have in his bank account at the end of May?	

	£ <u>December</u>	£ <u>January</u>	£ <u>February</u>
Opening Balance	600	1,650	-1,420
Receipts (also known as "Cash in")			
Sales	4,500	1,600	3,500
Total Receipts	4,500	1,600	3,500
Cash Available	5,100	3,250	2,080
Payments (also known as "Cash out")			
Rent	750	750	750
Purchases	1,500	700	1,100
Insurance	80	80	80
Wages	1,000	1,000	1,000
Heat & Light	120	140	140
Fridge Freezer		2,000	
Total Payments	3,450	4,670	3,070
Closing Balance	1,650	-1,420	-990

Task 4

Brian and Lesley own and run a small seaside cafe. Brian makes and cooks the food whilst Lesley serves the customers along with 3 part-time staff. Business is very good in the summer but it can be quiet in winter. Brian and Lesley need to buy a new fridge freezer which has been ordered and is due to be delivered in January. Based on last year's sales and their current business expenses, Brian and Lesley are worried that they might not have enough cash coming in to cover all their business expenses

Look at Brian and Lesley's 3-month cash budget forecast and answer the questions below (there are 9 questions)

		Your Answer
1	What is the closing balance at the end of February?	
2	What are the expected sales in January?	

Task 4 (Cont/..)

3	Why do you think the Cafe sales in January are so low compared to the other months? (write your answer in the box below)
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4	How much is the rent per month?	
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5	How much will be paid out in staff wages per month?	
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6	Do you think that Brian and Lesley could do anything to cut down on wages? (write your answer in the box below)
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7	What is the closing balance in January?	
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8	What is the opening balance in February?	
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9	Brian and Lesley plan to buy their fridge freezer outright in January. What other options are available?
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	<u>£</u> <u>August</u>	<u>£</u> <u>September</u>	<u>£</u> <u>October</u>
Opening Balance	500	195	10
Receipts (also known as "Cash in")			
Rolls & Bread Sales	1,100	1,400	1,600
Speciality Cake Sales	600	200	100
Pies, Pastries & Sausage Roll Sales	450	570	610
Total Receipts	2,150	2,170	2,310
Cash Available	2,650	2,365	2,320
Payments (also known as "Cash out")			
Purchases (ingredients)	900	800	900
Rent	500	500	500
Utilities (electric & gas)	225	225	240
Wages	800	800	800
Telephone / Internet	30	30	30
Bakery equipment			1,000
Total Payments	2,455	2,355	3,470
Closing Balance	195	10	-1,150

Task 5

Maria owns a small bakery. She makes and sells home-made rolls and bread as well as pies, pastries and sausage rolls. Maria can also make cakes for birthdays and other special occasions as well as luxury hand-made cupcakes. Most customers don't know about this service and it's only really by word of mouth that people have found out about her cake making. Maria desperately needs to upgrade some of her bakery equipment and has ordered a new oven to be delivered in October. She is worried about cash flow.

Look at Maria's 3 month cash budget forecast and answer the questions below. (There are 5 questions)

1	Explain what has happened to the closing balance in October
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Task 5 (cont/..)

2	What could Maria do to improve the sales of her speciality cakes?
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3	What could Maria do to reduce the cost of her purchases (ingredients)?
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4	What other options does Maria have for buying her bakery equipment?
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5	What else do you suggest that Maria could do to cut down on her expenses (payments), other than her purchases?
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	£ <u>December</u>	£ <u>January</u>	£ <u>February</u>
Opening Balance	3,200	10,200	-1,750
Receipts (also known as "Cash in")			
Accommodation Sales	8,000	1,000	7,000
Restaurant & Bar Sales	12,000	1,000	6,000
Function Sales	15,000	200	8,000
Total Receipts	35,000	2,200	21,000
Cash Available	38,200	12,400	19,250
Payments (also known as "Cash out")			
Management Salaries	6,000	6,000	6,000
Staff Wages	7,000	4,000	5,000
Staff Bonuses		2,000	0
Food & Drink purchases	14,000	1,000	4,500
Administration expenses	750	750	750
Electricity / Gas	1,000	400	500
Total Payments	28,750	14,150	16,750
Closing Balance	9,450	-1,750	2,500

Task 6

The Crown Hotel is a busy 3* hotel in Duncraig city centre. It has 60 guest bedrooms, a large function room that can be used for lots of different events such as weddings, conferences and Christmas party nights for local businesses which are held in December. There is also a restaurant and bar. Although the hotel does make a good profit every year, its cash flow varies depending on the time of year.

Look at the hotel's 3-month cash budget forecast and answer the questions below. (There are 5 questions)

1	Which month brings in the most sales? Why do you think this is?
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Task 6 (cont/..)

2	Why do you think that the management salaries in the hotel stay the same each month but staff wages vary?
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3	Why do you think the hotel is paying out a bonus to staff in January?
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4	In January, the closing balance is -£1,750. What source of finance could the hotel use to help with this situation and give a reason for your answer.
----------	--

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5	What do you suggest the hotel could do in January to increase its sales?
----------	---

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	£	£	£
	<u>April</u>	<u>May</u>	<u>June</u>
Opening Balance			
Receipts (also known as "Cash in")			
Sales			
Total Receipts			
Cash Available			
Payments (also known as "Cash out")			
Purchases			
Email / Internet			
Postage / packing			
Loan repayment			
Total Payments			
Closing Balance			

Task 7

Craig has set up an on-line clothing shop from the spare room in his parents' house. He managed to obtain a start-up loan from the bank to enable him to buy his stock (purchases). Craig has designed his own website and has subscribed to an internet provider on a 12-month contract.

Prepare Craig's 3-month cash budget forecast based on the following information.

- Opening balance in April is £500
- Sales for April £500, May £600, June £700
- Purchases for April £250, May £300, June £350
- Email / Internet package £40 per month
- Postage / Packing for April £50, May £60, June £70
- Loan repayment starting in May is £100 per month

	Your Answer
1 What is the closing balance in April?	
2 What is the opening balance in June?	
3 What are the total expected payments in May?	
4 How much cash available should there be in June?	
5 What is the closing balance in June?	

Cash Budgets - Tasks

	£	£	£
	<u>July</u>	<u>August</u>	<u>September</u>
Opening Balance			
Receipts (also known as "Cash in")			
Sales			
Total Receipts			
Cash Available			
Payments (also known as "Cash out")			
Purchases			
Rent			
Insurance			
Phone / Internet / Email			
Total Payments			
Closing Balance			

Task 8

Annenna has set up a business designing and producing hand-made necklaces and bracelets and has decided to rent a workshop in the local business park. She has been working out of her parents' garage but needs more space. However, Annenna is worried that the additional expense of the rent might cause a cash flow problem.

Prepare Annenna's 3 month cash budget forecast based on the following information.

- Opening balance in July is £400
- Sales for July £500, August £500, September £350
- Purchases for July £200, August £250, September £150
- Rent £175 per month
- Insurance £50 per month
- Phone / Internet / Email £30 per month

Then answer the questions below;

		Your Answer
1	What are the total expected payments in July?	
2	How much cash available should there be in September?	
3	What is the closing balance in September?	
4	Do you think <u>Annenna</u> should go ahead and rent the workshop? Why?	

	£	£	£
	<u>April</u>	<u>May</u>	<u>June</u>
Opening Balance			
Receipts (also known as "Cash in")			
Sales			
Total Receipts			
Cash Available			
Payments (also known as "Cash out")			
Purchases			
Rent			
Wages			
Advertising			
Total Payments			
Closing Balance			

Task 9

Harry runs a business selling freshly made smoothies, frozen yoghurts and a variety of healthy snacks.

Business has not been great lately as a large local supermarket has started selling similar products, not as good quality but at a lower price.

Harry doesn't do any advertising but is planning to spend £20 in April for the printing of 500 flyers that he plans to distribute in the town

Prepare Harry's 3 month cash budget forecast based on the following information

- Opening balance in April is -£150
- Expected sales for April is £2,000, May £1,620 and June £1,400
- Expected purchases for April is £900, May £950 and June £975
- Rent is £300 per month
- Wages are £600 per month
- Advertising flyers to cost £20 in April only

The answer the questions below on the next page;

Task 9 (cont/..)

1	The opening balance in April is -£150. What does this tell you about Harry's cash (bank) position?
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2	It is clear that Harry is having cash flow problems. Suggest appropriate action that he could take <i>(Hint; could Harry do anything to increase sales?, could he somehow reduce his purchases? Could he reduce his other business payments in some way?)</i>
----------	--

	£ <u>April</u>	£ <u>May</u>	£ <u>June</u>
Opening Balance			
Receipts (also known as "Cash in")			
Sales			
Total Receipts			
Cash Available			
Payments (also known as "Cash out")			
Purchases			
Insurance			
Advertising & Social Media			
Wages			
Total Payments			
Closing Balance			

Task 10

Julie owns and runs her own very successful mobile gourmet burger van. Business is going very well. Julie has a permanent pitch in a busy retail and business park and has negotiated a great deal with her suppliers to supply her with high quality products for a very good price.

Julie does a lot of marketing as well as advertising on her business Facebook page and offering weekly special offers.

The downside to Julie's business is that she is now working more than 80 hours per week and is struggling to cope with the day-to-day running of her van, keeping on top of the accounts and all the marketing and administration that is required. Julie is exhausted.

Prepare Julie's 3 month cash budget forecast based on the following information.

- Opening balance in April is £2,500
- Expected sales for April is £3,000, May £3,400 and June £3,900
- Expected purchases for April is £900, May £1,000 and June £1,200
- Insurance is £70 per month
- Advertising & Social Media is £350 per month
- Julie pays herself a wage and this amounts to £1,200 per month

Now consider the following question on the next page;

Task 10 (Cont/..)

1	Clearly, Julie's business is doing well and it has a very healthy cash flow. Suggest what Julie could do to improve and grow her business even more?
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	£	£	£
	<u>Jan</u>	<u>Feb</u>	<u>March</u>
Opening Balance			
Receipts			
Sales			
Total Receipts			
Cash Available			
Payments			
Purchases			
Insurance			
Wages			
Loan Repayment			
Total Payments			
Closing Balance			

Task 11

Nazim plans to take over the running of his parents' small cafe as they have retired. Nazim is at University and in order to make time for his studies, can only open for 4 days a week.

There is no mortgage or rent to pay and Nazim plans to do almost everything himself. However, he will need to employ a part-time student to help out a couple of hours a week.

Based on last year's accounts Nazim wants to prepare a cash budget for the next 3 months.

Prepare Nazim's 3-month cash budget forecast based on the following information

- **Opening balance** in January is £300
- Expected sales for January is £600, February £400 and March £360
- Expected purchases for January is £300, £400 for February and £420 for March
- **Insurance** is £60 per month but will increase in March by £10
- **Wages** are £100 for January and February but wages in March are expected to be 10% higher than February
- Nazim needs to take out a small **bank loan** which he will be paying back at £100 per month starting in March

Now consider the following 2 questions on the next page.

Cash Budgets - Tasks

Task 11 (cont/..)

1

In the space below **COMMENT** on Nazim's cash budget (*in other words, look at anything you consider to be a problem or perhaps something that is good / positive*)

--

2

In the space below suggest **APPROPRIATE ACTION** that Nadim could take to solve any problems you identified in question 1

--

Cash Budgets - Tasks

	£	£	£
	<u>August</u>	<u>September</u>	<u>October</u>
Opening Balance			
Receipts			
Sales (customer jobs)			
Total Receipts			
Cash Available			
Payments			
Materials			
Wages			
Rent			
Insurance (van/contents/public liability)			
Phone / Internet			
New Van			
Total Payments			
Closing Balance			

Task 12

Alec Watson is a self-employed electrician. He business has steadily grown in the last 2 years and he now has more work than he can handle.

He has decided to rent a small workshop in a local business park and employ another electrician. The employee will need his own van and Alec needs to organise this as soon as possible.

Although Alec is very busy, he is worried about his cash flow and needs a 3-month cash budget forecast drawn up.

Prepare Alec's 3-month cash budget forecast based on the following information.

- **Opening balance in August is £1,000**
- **Expected sales in August is £5,000 and September £8,500. Sales in October are expected to be 10% higher than in September**
- **Expected materials will be 60% of Sales for each month**
- **The new electrician is to be paid £1,000 for the first month and after a successful trial, Alec has agreed to increase wages by 25%**
- **Rent is £120 per month but will increase by £30 in October**
- **Insurance is £225 per month**
- **Phone/Internet is £75 per month**
- **A new van costing £6,500 is available in September**

Now consider the following 2 questions on the next page

Task 12 (Cont/..)

1	In the space below COMMENT on Alec' cash budget <i>(in otherwords, look at anything you consider to be a problem or perhaps something that is good / positive)</i>
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2	In the space below suggest APPROPRIATE ACTION that Alec could take to solve any problems you identified in question 1 or to bring the cost of his payments down
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Cash Budgets - Tasks

	£	£	£
	<u>May</u>	<u>June</u>	<u>July</u>
Opening Balance			
Receipts (also known as "Cash in")			
Sales			
Total Receipts			
Cash Available			
Payments (also known as "Cash out")			
Purchases			
Wages			
Rent			
Advertising			
Bank Loan Repayments			
Electricity			
New Equipment			
Total Payments			
Closing Balance			

Task 13

You have been asked by your friend Jenny to help prepare a 3-month cash budget (May, June and July) for her Hairdressing business.

You have been given the following information:-

- Opening bank balance in May is £1,500
- Sales in May £2,000, June £2,200 July £2,500
- Purchases are 25% of Sales
- Wages will be £1,100 per month for a stylist
- In July, a part-time hairdresser starts. She will be paid on a pro-rata basis which works out to be 60% of the stylist's wages
- Rent will be £500 per month but is to increase by 40% in June due to moving to a bigger premises
- An advertising campaign is planned in June. The budget for this is £1,000
- Bank Loan repayments will be £300 every month
- Electricity will be £200 per month but a 10% decrease is expected in July
- Jenny needs to buy new equipment in July which will cost £2,000 new

Complete the cash budget to calculate the closing balance at the end of July and answer the question on the next page;

1

Jenny is going to end up with a negative closing balance at the end of July. Use the box below to suggest anything she could do to improve her cash flow (give as many suggestions as possible)

Cash Budgets - Tasks

	£	£
	<u>October</u>	<u>November</u>
Opening Balance		
Receipts		
Player subscriptions		
Bar Sales		
Lottery Grant		
Total Receipts		
Cash Available		
Payments		
Bar Purchases		
Insurance		
Ground Staff Wages		
Heat & Light		
Total Payments		
Closing Balance		

Task 14

The local rugby club would like to build a new pitch. As well as one existing pitch, the club also has a clubhouse with bar and changing rooms.

They are thinking about approaching the bank for a loan and have asked you to prepare a cash budget for October and November. You have been given the following information: -

- Opening bank balance at 1 October is £1,000
- Bar purchases; September £1,400, October £1,800, November £2,000
- Insurance; £1,200 per year
- Player subscriptions; £380 per month, expected to increase by 20% from November
- Bar sales; September £2,990, October £3,250, November £3,700
- Ground staff wages; £200 per month
- Heat & Light; £120 per month with a 10% increase from November

NOTES:

- Bar purchases are paid in the month after purchase
- Insurance is paid in two equal installments in April and October
- A lottery grant of £1,000 is expected in November

Now answer the questions on the next page;

Cash Budgets - Tasks
Task 14 (cont/..)

1

Although the Rugby Club will have a healthy cash balance at the end of November, what suggestions do you have to increase the cash coming in?

2

Is there anything the Club could do to cut back on the cash going out?

3

Do you think the Club will be able to get a bank loan? Why?

General Questions

1. What is a cash budget?

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2. What is meant by the “Opening Balance”

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3. What is meant by the “Closing Balance”

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4. What does the term “Total Receipts” mean?

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4. Outline 3 causes of poor cash flow

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5. For each cause, you have identified in Q.4 above, suggest ways to improve the cash flow

Exam Style Questions

1. Describe the action a business could take when faced with a negative closing balance in its cash budget? (4 marks)

2. Justify the use of cash budgets for an organisation (4 marks)

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3. Discuss the importance of managing cash flow in a business (3 marks)

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4. Describe reasons for cash flow problems that can affect a business? (5 marks)

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5. Describe how a business could use a spreadsheet when preparing and managing a cash budget (2 marks)

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