

3.7 Cash Flow: Activity A



IB Business Management: IBBusinessManagement.com

3.7 CASH FLOW: ACTIVITY A

Read the case study below and answer the questions that follow.

APRIL CASH FLOW



Burton Inc. is a private limited company that specialises in producing a range of online teaching and learning resources for the IB Diploma.

Cash flow can be 'lumpy' with large sales to teachers when the new school year starts in August and September and then again to students in February-May when the IB examination period gets closer.

Table 1 shows the actual Cash Flow Forecast for Burton Inc., as estimated for the first four months of operation.

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| Table 1: Burton Inc. Cash Flow Forecast – All figures in \$000 | | | | |
|--|-----------|----------|------------|------------|
| | Jan | Feb | Mar | Apr |
| Opening balance | 0 | (2) | (1) | (G) |
| Cash inflows | | | | |
| Owners' capital injection | A | 0 | 0 | 0 |
| PayPal® sales | 3 | 4 | 6 | 6 |
| Payments by debtors | 0 | 2 | 2 | 3 |
| Total cash in | 9 | D | 8 | 9 |
| Cash outflows | | | | |
| Lease | 8 | 0 | 0 | 0 |
| Rent | 1 | 1 | 1 | 1 |
| Materials | 0.5 | 1 | 3 | 2 |
| Labour | 1 | 2 | 3 | 3 |
| Other costs | B | 1 | 0.5 | 1.5 |
| Total cash out | 11 | E | 7.5 | 7.5 |
| Closing balance | C | (1) | (F) | 1 |

QUESTIONS: 20 MARKS, 35 MINUTES

- Using the data in Table 1 above, calculate the missing data values **A-G**. [7 marks]
- Identify one more likely cash payment that could be received by Burton Inc. and one more cash payment that could be made by the business. [4 marks]
- Using Table 1 above, construct a revised cash flow forecast for April, assuming:
 - PayPal® sales are forecast to be \$1,000 higher
 - Materials are forecast to be \$500 higher
 - Other costs are forecast to be \$1,000 higher[9 marks]