

3.7 Cash Flow: Activity C



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3.7 CASH FLOW: ACTIVITY C

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

LA CARNICERÍA SANITARIA (LCS)



Alejandra Morales manages a meat wholesale business in the southern side of Panama City, Panama. The business was set up by her father. When he retired, he changed the legal status from a sole trader to a private limited company. Every year Alejandra uses her personal savings to purchase an additional 5 % of her father's shares. The firm is profitable, has an average monthly positive cash flow of US\$1,200 (after paying Alejandra's monthly salary), no debts, and presently has a

US\$14,000 cash balance. The present policy of the firm is to pay dividends of US\$12,000 each year.

Alejandra wants to open a new wholesale facility in the northern side of the city in January 2023. According to her business plan she would need to rent a building and purchase new equipment.

- To finance the new equipment, she will obtain a US\$60,000 bank loan which must be repaid in five years.
- Alejandra forecasts sales of US\$10,000 in January 2023 and she expects sales to grow by 2 % per month for the following six months.
- Sales will be on credit with customers required to pay in 30 days.

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When Alejandra makes the proposal to open the new wholesale facility, her father still has 60 per cent ownership of LCS. He is concerned that Alejandra is too optimistic with her sales forecasts.

Forecasted cash outflows of La Carniceria Sanitaria (LCS) at the new wholesale facility for the first six months (January to June 2023) will include:

	US\$
Monthly purchase from meat suppliers	The purchase price (paid in cash) is equivalent to 30% of forecasted sales
Monthly wage of:	
<ul style="list-style-type: none"> ▪ Senior butcher ▪ Junior butcher ▪ Van driver 	<ul style="list-style-type: none"> ▪ 1 200 ▪ 1 000 ▪ <u>800</u>
Total monthly wages:	3 000
Monthly charges:	
<ul style="list-style-type: none"> ▪ Telephone ▪ Rent ▪ Debt repayment (principal and interest) ▪ Insurance ▪ Miscellaneous 	<ul style="list-style-type: none"> ▪ 150 ▪ 1 200 ▪ 1 200 ▪ 200 ▪ <u>400</u>
Total monthly charges:	3 150
Electricity expenses to be paid every two months (starting in Jan 2023)	▪ 400

QUESTIONS: 26 MARKS, 45 MINUTES

1. Prepare a monthly cash flow forecast for the first six months of operation of the **new** wholesale facility of LCS. **[10 marks]**
2. Comment on the impact that the **new** wholesale facility will have on the current cash position and cash flow of LCS. **[6 marks]**
3. Evaluate the different methods LCS could use to improve the liquidity position of the **new** wholesale facility if the sales forecasts prove to be overly optimistic **[10 marks]**