**Cash Flow Forecast for Time Space Ltd for the following 3 months**

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| --- | --- | --- | --- | --- |
|  | October  | November  | December | Total |
| Total Receipts | 7000 | 7000 | 9000 | 23000 |
| Total Payments | 6500 | 8000 | 12000 | 26500 |
| Net Cash | 500 | (1000) | (3000) | (3500) |
| Opening Cash  | 100 | 600 | (400) | 100 |
| Closing Cash | 600 | (400) | (3400) | (3400) |

1. Complete the cash flow forecast using the above figures.
2. Outline the reasons why a cash flow forecast would be prepared.
3. In which months has the business got a problem? Use your figures to explain your answer.
4. What can we learn from this cash flow forecast and what actions can be put in place?
5. Above
6. Any 4 from the following, **reference the cash flow to be specific to this company if possible and use figures to back up. I have done this in bold here**:
7. A Cash Flow Forecast acts as a financial control mechanism **for businesses such as Time Space Ltd** that can be used to measure actual cash flow against planned cash flow encouraging a company to plan its finances sensibly and live within its means and not to overtrade (e.g. buy/sell too much on credit)
8. It helps avoid cash flow problems as costs are considered in advance, so they can ensure it has sufficient funds when the time comes. **It is clear from the above Cash Flow Forecast that Time Space Ltd will have cash flow issues going into the next calendar year with a Closing Cash December figure of (3400)**
9. It lets us know in advance when there will be a deficit. This will give time to source short term finance such as a bank overdraft to deal with the deficit, **like in November (1000), and December (3000) Net Cash figures**. For a business it will ensure that the company pays its bills on time and will not go bankrupt.
10. It lets us know in advance when there will be a surplus. A business could then make plans to invest the money and gives the business an opportunity to earn interest on this surplus as a form of capital. **Time Space Ltd had a surplus Net Cash of 500 and surplus Closing Cash of 600 in October.**
11. Identifies times when high expenditure may be needed (Christmas for the household/ excess supplies for a business) and therefore the opportunity to plan and set aside cash for such occasions. For the household a budget also shows the family exactly where money is going and highlights particular areas of overspending that can be cut back. **Time Space Ltd have clearly overspent in November and December and this cash flow will be able to highlight this.**
12. It can set a target for where the cash flow situation should be in the future. The household/business can look at the cash flow forecast eventually and measure the forecast against actual performance. **Time Space Ltd will clearly have cause for concerns with November and December’s performance.**
13. The cash flow forecast can be used as a tool in applying for a loan. This will show the bank that the books are appropriately in order. **Time Space Ltd would be able to present the Cash Flow Forecast to the bank in looking to apply for a loan, and perhaps highlight that the negative cash flow figures in November and December are short term deficits.**
14. November and December as they have negative net cash of (1000) and (3000). This means that they would have spent more than they took in for those months.
15. The business at present is not living within their means.

They could:

* Look to sell of an asset to raise capital. Time Space Ltd could look to sell an asset such as a machine that is now obsolete to get an instant cash injection into the business
* Apply for a short term loan/ bank overdraft to finance the problems when they are in deficit. These short term finance options would give Time Space Ltd flexibility, however they must be wary of interest rates
* Adjust receipts: Its receipts in October and December could be increased by changing its marketing mix, e.g. lowering price to sell more, increasing the price if demand is there, designing new products or more effective promotion campaigns/reducing period of credit given to debtors/cash sales only
* Adjust payments: The business could decrease its cash payments by sourcing cheaper suppliers, restructuring loan repayments or asking employees to take a wage decrease. This would hopefully have a knock on effect in balancing Time Space Ltd forecasted books for this trading period.