

debtors

- 2 C&P Designs is a business partnership between Cory and Phoebe. They make handmade jewellery. Phoebe works from home making all the jewellery such as necklaces and bracelets. C&P pays for materials when they are ordered, but allows their customers one month to pay. Cory manages the accounts and the shop. He is worried about cash flow, as shown in the Table. Cory said: 'The bank will not increase our overdraft. We should ask customers to pay more quickly.' Phoebe thinks advertising would increase sales but is worried about legal controls on marketing.

Table: Cash flow forecast for C&P (\$)

	June	July	August
Cash inflow	480	440	460
Cash outflow:			
Raw materials	240	260	240
Shop rent and other costs	200	200	220
Total cash outflows	440	460	460
Net cash flow	40	(20)	0
Opening balance	(60)	(20)	(40)
Closing balance	(20)	(40)	(40)

Cory thinks asking customers to pay more quickly is the best way to improve cash flow. Do you agree? Justify your answer.

No. I do not agree, asking customers to pay quickly may increase the money injected in the business for a short time period but due to this C & P may lose its customers to other jewellery business competitors who may offer credit. Losing customers will lead to the sales of the business falling drastically and since reducing the negative closing balance even further the business already has a negative closing balance. At C & P designs instead pay for their materials on credit rather than immediately. This will give the business time to sell the jewellery and leave them in a better cash position before they pay their creditors. However they should ensure that their creditors are willing to give them time to pay and do not continue to give discounts. C & P designs discounts.

- 1 ZumGo is a business partnership between two brothers Richie and Justin. It provides bus tours for people wanting to go on holiday. After two successful years, Justin wants to expand the business by buying another bus. This will cost \$28 000. When Richie produced the cash flow forecast as part of ZumGo's business plan he forgot to include the \$6000 for advertising in March. They cannot decide whether to lease the bus or use all their retained profit to buy one. Leasing would cost \$1000 per month for 2 years.

Cash flow forecast for 3 months ending 31 March 2018 (\$)			
	January	February	March
Cash in	36 000	36 000	30 000
Cash out:			
Advertising	12 000	0	6000
Other costs	24 000	25 000	22 000
Total cash outflow:	36 000	25 000	W
Net cash flow	0	11 000	X
Opening balance	(15 000)	(15 000)	Y
Closing balance	(15 000)	(4 000)	Z

Calculate the values of W, X, Y and Z.

W: $6000 + 22000 = 28000 \$$

X: $30000 - 28000 = 2000 \$$

Y: (4000)

Z: $(4000) + 2000 \$ = (2000) \$$

[4]

- 2> No asking customers to pay quickly is not the best way to improve cash flow. If this is done customers would be dissatisfied and switch to competitors. This may reduce demand, leading to reduced cashⁱⁿ flow. Alternatively could ask the suppliers to change payment terms because if they do not pay in full, it will give C&P more time to generate cash. At the same time C&P will have to ensure suppliers continue giving good quality materials like metals, gem-stones etc for making jewellery and also smooth and timely supply needs to be maintained.