



SAMPLE ANSWER

For **Task 2 (M1)**, the bullet point list could include the following observations:

- The purchase of the van (at £4000) causes a significant outflow of cash for the first month's trading (July). A van is essential for the business to function and so it must be available to use in that first month. As a result of the £4000 outflow the net cash flow for the month (and the closing balance for the month) is expected to be -£2820. The outflow is clearly a contributory factor to the expected final closing balance of -£4995 (a forecast overdraft).
- The fall in sales that is expected in January, after the relatively busy period expected during the summer months and during the build up to Christmas, has a dramatic impact on cash inflows, reducing them significantly. The problem is caused by the fact that after Christmas fewer people will be able to afford cycle repairs and so, although some people might require repairs/adjustments to Christmas purchases, sales are likely to fall. Because of the fall in sales revenue the January net cash flow sinks into the red (with a value of -£425) after the two previous months showing expected negative but improving net cash flows. The expected fall in inflows over the early part of the year clearly also contributes to the final negative closing balance.

Two examples of entries that could be made in the table for **Task 3 (D1)** are shown below:

Recommendation	Explanation	Justification
Buy the van on finance	You could buy a van using finance. In other words, rather than buying the van outright, you could buy it on hire purchase (or credit) and pay for it in instalments. Most vehicle retailers offer some form of finance arrangements. A £4000 van might be bought on finance by making 24 monthly payments of £192, for example. This would be a total repayment of £4608.	If you were to buy the van on finance the overall final cost of buying it will probably be greater. With my example on the left, it would cost you £608 more. However, the outflows during your first year of trading would be reduced. If you pay £192 each month, this is a total of £2304 for the year. Each monthly closing balance will improve significantly and, if all other factors remained as expected, the final closing balance would be positive.
Increase the owner's capital injection	At the moment you anticipate that your uncle John will give you £2000 to help start the business. You could ask him for a larger sum of money (say £6000), perhaps with a view to repaying the extra, once the business is established. While repaying any money to your uncle during the first year would be difficult, it may be easier in the second (or preferably) third year when the business is better established. Ideally your uncle would wait until the van finance I have suggested above has been paid off.	An extra £4000 injected in July would have a huge positive impact. The expected inflows for that month would rise to £9400. This will help to improve the monthly closing balance and final closing balance. If John is agreeable to the extra amount being repaid after two years of trading, there will be no associated impact on expected outflows of cash until the repayments begin. Even without adopting the van finance idea, the expected final closing balance should become positive.

An amended cash flow forecast (showing the impact of the above two changes) is on the next page.