## Cash Flow Forecasts

## Cash flow management - case study

### **Bright Spark Standards Ltd**

*Three shareholders, Brent, Suzanne and Christina, have just set up a small company that buys electric fence standards from Asia and then sells them to wholesalers in this part of the world. Marketing and selling is done using the Internet. When they started trading, Suzanne the accountant, arranged an overdraft with the bank for $10,000.*

*They have been operating for two months and the early days were very hard, but the market is growing. Sales were very good, and all the owners' efforts were put into buying and selling. Credit control was ignored, and Suzanne let the work on the cash flow forecast slip.*

*The owners are in the boardroom when the receptionist interrupts them.*

*'Suzanne, phone the Bank Manager at once. Unless you talk to her, she will call our overdraft in.'*

*'What is she on about', said Brent, 'does that mean I will have to cancel the order for my BMW?'*

*Suzanne went to her office. She had lost her Cash Flow Forecast. She was a little worried.*

*Her records showed the following were the figures that had been decided:*

**Forecast Sales:** $65,000 month 1, $100,000 month 2

#### Forecast Overheads

**Rent**: Office $3,000 per month.
**Furniture:** $1,000 per month.
**Cars:** $1,500 per month.
**Rates, Insurance etc:** $2,000 per month.
**Tax:** $8,000 per month.
**Services:** $250 per month.
**Salaries and expenses:** $9,500 per month.
**Sundries:** $1,000 per month.
**Purchases:** $60,000 per month

**Opening bank balance:** $12,468

**YOU ARE TO: Individually** create the spreadsheet and enter the figures

#### Actual Cash Received

#### Sales

**Month 1:** $66,000 received
**Month 2:** $90,000 received.

#### Actual Cash Paid

#### Purchases

**Month 1:** $75,000 Paid.
**Month 2:** $85,000 Paid.

**Other Expenses:**

**Rent**: Office $3,000 per month. Both months paid.
**Furniture:** $1,000 per month. One month paid.
**Cars:** $1,500 per month. One month paid.
**Rates, Insurance etc:** $2,000 per month. Both months paid.
**Tax:** $5000 per month. None paid.
**Services:** $250 per month. Both months paid.
**Salaries and expenses:** $9,500 per month. Both months paid.
**Sundries:** $1,000 per month. One month paid.

**YOU ARE TO:**

* Would the information above be helpful to include in our spreadsheet?
* How can we show the information above in our spreadsheet?
* Do we need to modify our spreadsheet design?
* **Individually** Modify your spreadsheet to incorporate the changes
* **Individually** Draw some conclusions about the present situation and recommend what can be done in the future.
* **As a class** summarise your conclusions and recommendations on the board. What does Bright Spark Standards need to do now?