## Cash flow management - case study

## The Computer Business

*The Computer Business sells computers with preloaded farming software to farmers through the Internet. They buy their stock for $600 per computer and sell them for $1,000 each. The history of the firm for its first 10 weeks of trading is shown below.*

*When they started the business the three shareholders put in $100,000 in cash.*

**Week 1** - they rent a serviced office for $300 per week, and pay this in cash. This rental is then paid weekly for the remainder of the 10 weeks.  
**Week 2** - they purchased a batch of 100 computers at a price of $600 each, paying cash with order. The pay an insurance policy for 6 months. It costs them $650 cash.  
**Week 3** - they sell 50 computers for cash, and 20 on two weeks credit.  
**Week 4** - they purchase another batch of computers. They now buy 200 units at a special price of $500 each for cash. They sell 50 units on three weeks credit, and 20 for cash.  
**Week 5** - they sell 30 units for cash and 50 on three weeks credit.  
**Week 6** - they buy another 200 units for $500 cash. They also pay wages of $2,500 cash. No sales this week.  
**Week 7** - they sell 80 units on two weeks credit.  
**Week 8** - they buy another 200 units on a very special deal. Cash purchase at $450 per unit. They sell 50 for cash.  
**Week 9** - they sell 60 on one weeks credit and 30 for cash.  
**Week 10** - they buy 200 units payable next week. They sell 40 units for cash.

* **As a class** plan a spreadsheet to show the cash flow of the firm week by week for the trading period of 10 weeks. Do we need a week 11? Why?
* **Individually** create the cash flow statement spreadsheet for the firm.
* **As a class** plan a spreadsheet to calculate closing bank balance, on a week-by-week basis, for the 10-week period.
* **Individually** create the spreadsheet and enter the figures, 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.