



National Certificate of Educational Achievement  
TAUMATA MĀTAURANGA Ā-MOTU KUA TAEA

## **Exemplar for Internal Achievement Standard**

### **Agribusiness level 2**

This exemplar supports assessment against:

**Achievement Standard 91868**

**Demonstrate understanding of cash flow forecasting for a business**

An annotated exemplar is an extract of student evidence, with a commentary, to explain key aspects of the standard. It assists teachers to make assessment judgements at the grade boundaries.

New Zealand Qualifications Authority

To support internal assessment

	Grade Boundary: Low Excellence
1.	<p>For Excellence, the student needs to demonstrate comprehensive understanding of cash flow forecasting for a business.</p> <p>This involves justifying the response(s) of the business to the variation in the external factor.</p> <p>The student used spreadsheet software to produce a cash flow forecast, showed the effect of the land use fee variation and showed their recommended responses to the variation on the cash flow forecast (not shown here).</p> <p>The student has explained the impact of the variation of the \$15,000 land use fee on the chicken farm (1). Three possible responses the business could take to address a deficit caused by the unexpected fee are also explained (2).</p> <p>The student has explained advantages and disadvantages for all three responses, including using debt finance which was not in the end recommended. Justification has been provided for increasing capital (3) and reducing advertising (4).</p> <p>The student has demonstrated comprehensive understanding of cash flow forecasting by considering restraints such as contractual arrangements and employment law (5). Accurate business language such as deficit, negative bank balance and equity, has been used.</p> <p>For a more secure Excellence, the student could indicate that the saving of \$600 for advertising would be achieved over two months (6). The student could also use a bank website to provide comparable interest rates for overdrafts and mortgages (7).</p>

6

Jack Fowler runs a free-range chicken farm in Canterbury called Eggs Galore. The farm's bank recently approved a \$100,000 mortgage to expand the business by buying a hectare of land next to his property.

Student 1: Low Excellence

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At the end of January Jack received an unexpected invoice from the district council of \$15,000 for a land use fee. A lateness penalty will be added if the invoice is not paid by the end of February. Jack had not factored this cost into his cash flow forecast so must find ways to cope with this variation.

As seen in the farm's original cash flow forecast the closing bank balance in February was projected to be \$6,590 so paying the \$15,000 fee would create a deficit for February of \$8,410. Unless he makes some adjustments to avoid this deficit Jack would need to arrange an overdraft with the bank of, say a rounded amount of \$9,000, and would need to pay interest on this as well as an overdraft establishment fee. If an overdraft wasn't arranged automatic payments and direct credits of Eggs Galore would not be paid by the bank. This would cause problems. For example, if he could not pay the supplier of chicken feed or maintain the level of farm hygiene the health and productivity of his chickens could suffer, and this could reduce sales, customer satisfaction and the good reputation of Eggs Galore. The farm's credit rating could also be affected.

1

An overdraft can be short-term such as for only a few months, but the interest rate can be high and is calculated on the daily balance. Rather than arranging an overdraft to avoid the predicted negative bank balance, Jack could also consider applying to the bank to add the \$9,000 to the mortgage recently taken out to buy the land next door. If the bank approved this increase in the mortgage the interest rate would be lower than for an overdraft, but Jack would be paying off the \$9,000 over a longer time making it a more expensive option.

2

7

I recommend that Jack avoid taking on further debt. He has only recently contracted for a further \$100,000 and hasn't had time to demonstrate a good history of repaying the principal and/or interest on the due dates. It is not an appropriate time to incur further debt and interest for the sake of \$15,000. There are other ways to solve the problem of the unexpected land fee invoice.

Although the \$15,000 land use fee has not been budgeted for, Jack only needs to find solutions that will avoid the projected deficit of \$8,410 at the end of February. However, I am going to make adjustments that will enable Eggs Galore to finish February with \$890 in the bank just in case sales do not reach the levels Jack has forecasted.

1

Jack should attempt to contribute a further \$9,000 capital into his business. This would increase Egg Galore's cash inflows in February to \$76,700. The benefit of using his own funds is that the business will not be incurring further debt and further interest. It also means that Jack's equity in his business is larger, relative to the amount of debt the business has. If he needs to apply for business finance in the future it will show that Jack had faith in his business by investing more of his own funds.

2

3

A personal disadvantage of contributing further capital is that Jack may have been saving for something, such as an asset or a holiday, which would need to be put on hold. He would also lose the chance to earn interest on the \$9,000. Because Eggs Galore is Jack's only source of income it should be more important to him that the business is a success. Once

the enlarged farm is operating successfully and profit increases Jack could return the funds to his personal account by taking an additional \$9,000 as drawings.

I have recommended that Jack invest further capital rather than reduce his monthly drawings because his personal budget would be based on his current level of income and his \$3000 drawings per month is not an excessive amount anyway. If Jack doesn't have a spare \$9,000 in his bank account it might be easier for him to add this amount to any personal mortgage or loan, rather than go three months without any income.

I also suggest that Jack reduces the amount Eggs Galore spends on advertising in the months of February and March, providing he has not signed a contract that commits him to spend \$200 with the Courier which is a free weekly paper and \$500 with the Guardian which is sold to readers. As Eggs Galore will still be advertising the newspapers are unlikely to hold them to the size of the monthly ads already booked. If he can reduce these to \$100 and \$300 he would save \$600 in advertising in February.

2

The cheaper advertisements would be less prominent however Eggs Galore would still have exposure in the newspapers. If Jack is concerned about the advertising not being as effective as it currently is, he could also make use of free social media promotion, e.g. he could establish a Facebook page for Eggs Galore. Jack should monitor whether his sales appear to be affected by the smaller ads. It could be that he will be able to continue to place less expensive ads into the future so that the cost of advertising is permanently reduced.

4

I have recommended responses that will not affect business productivity. I could not reduce the equipment lease expense or mortgage and interest repayments because legal contracts apply to these. Reducing operating expenses could affect the output of eggs and therefore reduce sales. I also could not reduce employee wages as this would go against their employment agreements.

5

The two responses I have recommended should ensure that Eggs Galore can finish each month in the six-month timeframe with funds in the bank account.

	Grade Boundary: High Merit
2.	<p>For Merit, the student needs to demonstrate in-depth understanding of cash flow forecasting for a business.</p> <p>This involves showing the response(s) of the business to the external factor on the cash flow forecast and explaining the possible response(s) of the business to the variation in the external factor.</p> <p>The student showed the response of the business to the installation and monitoring camera fee on the cash flow forecast using spreadsheet software. The student has explained the increase in the deficit for September when the fee is added to the forecast. Other increases in expenses and wages from July have also been explained (1).</p> <p>The student showed and explained three possible responses the business could make to address the increased deficit due to the \$50,000 fee in September. These were a reduction in personal drawings, a decrease in advertising, and an increase in the bank loan (2).</p> <p>Some advantages of these three responses have been identified and disadvantages have been explained (3).</p> <p>The student has explained why reducing personal drawings may not be a viable response. A brief explanation of why increasing the loan and reducing advertising are the best responses is provided (4).</p> <p>To reach Excellence, comprehensive understanding of forecasting needs to be demonstrated. This involves providing further depth in the explanations of the advantages and disadvantages of each response (5). Further detail could also be provided around why increasing the loan and reducing advertising represent the business's most appropriate responses to the monitoring fee (6).</p>

**Crusty Crayfish's Cashflow Forecast**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Loan (increased by 50,000)			100,000		50,000			
<b>Total Cash Inflow</b>	0	0	151,000	71,000	121,000	71,000	71,000	71,000

2

**Cash Outflows**

Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
M of F monitoring fee					50,000			
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
Advertising	500	500	1,500	1,300	1,300	1,300	1,300	1,300
Loan Repayment			3,000	3,000	3,471	3,471	3,471	3,471
<b>Total Cash Outflow</b>	29,680	24,180	159,001	73,401	115,872	65,872	65,872	65,872

1

2

Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,262	-4,134	994	6,122
Net Cash Flow	-29,680	-24,180	-8,001	-2,401	5,128	5,128	5,128	5,128
Closing Bank Bal	25,320	1,140	-6,861	-9,262	-4,134	994	6,122	11,250

Crusty Crayfish are expanding so purchased a quota in July, providing forecasted income of \$51,000 in cash sales and \$20,000 a month via accounts receivable from August. This increased running expenses from \$10,000 to \$36,400 in July and accounts payable from \$2,500 to \$9,100 in August. Additionally, another full-time worker is needed so wages increase from \$6,680 to \$11,101 in July.

1

Crusty Crayfish received an unexpected letter and invoice end of July, from the Ministry of Fisheries, informing them of a remote monitoring fee and the cost to install a camera on the crayfish boats which is going to cost them all up \$50,000. The impact that this will have on the business is that before the fee is added to the month of September and before any changes are made to the spreadsheet, the closing bank balance was \$-4,063 with the added \$50,000 this would dramatically change the cash flow forecast. The closing bank balance in the month of September after the added fee would be \$-54,063.

1

A possible response of the crayfish business could be to reduce personal drawings by half, from \$4,500 to \$2,250 changing the closing bank balance of the cash flow forecast. A disadvantage of reducing the drawings is the business owner may not have enough money for sustainable living.

2

3

Another possible response to the \$50,000 fee is to reduce the amount the business will pay for advertising. They originally paid \$500 each month up until July when they would start paying \$1,500. I reduced this by \$200 from August because if they reduce advertising too much, they could lose income by losing potential customers and therefore profit.

2

3

The overdraft facility put in place shows that the business has a pre-arranged overdraft limit of \$10,000, and to extend this it would be another \$500 per month. They could instead increase the loan by \$50,000 from the bank. The original loan was over 3 years and I worked out on the Westpac personal loan calculator that with the same variable interest rate they would be repaying \$4,512 monthly. Another option is to extend the time to pay it back, spreading the payment over 4 instead of 3 years. This would only cost them \$3,471. This is an option they could consider if the business is in a position to pay \$3,471 monthly for the duration of 4 years.

2

2

Disadvantages would be that increasing the loan by \$50,000 it would have to pre-approved by the bank, and the business would end up paying more interest because they are borrowing for four years not three years.

3

Overall, I believe that the best response for the business is to reduce advertising and increase the loan. I am not recommending reducing drawings because the larger quota of crayfish will increase workload, and the business owner probably needs this income to pay all their personal bills, so reducing drawings is not really a viable response.

4

I believe the response above is the best fit for the business. It will ensure that Crusty Crayfish can run a sustainable business which complies with all the regulations and continues providing the best quality crayfish for their target market.

For example, the business could add lump sums to pay off the loan earlier and reduce the amount of interest being paid, and still paying extra for advertising and marketing will provide increased exposure for the new business, etc.

5

For example, by increasing the loan, it could also be possible for the business to reduce or even remove the \$10,000 overdraft from November, which would further reduce expenses, etc.

6

	Grade Boundary: Low Merit
3.	<p>For Merit, the student needs to demonstrate in-depth understanding of cash flow forecasting for a business.</p> <p>This involves showing the response(s) of the business to the external factor on the cash flow forecast and explaining the possible response(s) of the business to the variation in the external factor.</p> <p>The student showed the response of the business to the unexpected fee on the cash flow forecast using spreadsheet software. The increase in the deficit for September when the fee is added to the forecast has been explained (1).</p> <p>The student has shown and explained four possible responses the business could take to address the \$50,000 fee in September. These are a reduction in personal drawings, a reduction in advertising, extending the overdraft and injecting \$35,000 capital (2).</p> <p>Advantages (3) and disadvantages (4) of these four responses have been explained.</p> <p>The student concluded that the combined response is most appropriate for the business by briefly explaining why reducing crayfish expenses and wages is not appropriate (5).</p> <p>For a more secure Merit, the student could recognise some feasibility issues around the owner injecting capital and reducing drawings. This can be explained as additional disadvantages.</p> <p>For example, the owner may not have \$35,000 in personal savings or liquid assets. A term deposit will take 30 days' notice to break and access. Also, a \$3,500 drop in income for two months is large. The owner may not be meet their personal expenses and this could damage their personal credit rating.</p>

Student 3: Low Merit
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**Crusty Crayfish Business**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Capital					35,000			
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
<b>Total Cash Inflow</b>	0	0	151,000	71,000	106,000	71,000	71,000	71,000

**Cash Outflows**

Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	1,000	1,000	4,500	4,500
Advertising	500	500	1,500	1,500	500	500	1,500	1,500
Extend overdraft fee					500			
Monitoring Fee					50,000			
Loan Repayment			3,000	3,000	3,000	3,000	3,000	3,000
<b>Total Cash Outflow</b>	29,680	24,180	159,001	73,601	111,601	61,101	65,601	65,601

Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,462	-15,063	-5,164	235
Net Cash Flow	-29,680	-24,180	-8,001	-2,601	-5,601	9,899	5,399	5,399
Closing Bank Bal	25,320	1,140	-6,861	-9,462	-15,063	-5,164	235	5,634

The unexpected \$50,000 remote monitoring fee on Crusty Crayfish has increased the total cash outflows for September by \$50,000. This has led to a Net Cash Flow decrease of \$50,000, which would cause the bank balance to be overdrawn by \$54,063.

1

The pre-arranged overdraft facility with the bank (that has gone over its \$10,000 limit) needs to be extended, so a \$500 extension fee will apply to September, so the overdraft will cover this cash shortage during September and October.

2

The combined responses of increasing capital by \$35,000, decreasing advertising by \$1000, and cutting back on personal drawings by \$3500 reduces the overdrawn bank balance from -\$54,063 to -\$15,063. As mentioned earlier, the prearranged (and now extended) overdraft facility means that the bank will cover the extra cash shortage in September/October. In November, Crusty Crayfish will still be in overdraft at -\$5164, but the bank should cover this. In December we expect the bank balance to no longer be overdrawn and sit at a positive closing balance of \$5634.

2

Introducing an additional \$35,000 from the owner's personal savings has the advantage of increasing the total cash flow for the month of September. This would be a one-off receipt for the business that the doesn't have to be repaid, allowing the business to get out of debt quicker. It also reduces the risks that would become evident if the loan was extended. By doing this, the owner is also increasing his ownership of the business as he is reducing his need to borrow. This means in the future, he could still expand, as the bank will not think he is too risky. This is because through the injection of capital, the interest payments on the overdraft are reduced, as an extended overdraft from the bank is only needed for the two months he is in extra debt (September and October), as he is back to a positive balance of \$235 by end of November.

3

3

A disadvantage could be that owner's personal savings account decreases and he may find himself in a difficult financial situation, but this is what is best for the business and needs to happen if he wants to operate into the foreseeable future, debt free.

4

Reducing personal drawings by \$3500 to \$1000 for September and October has the advantage of reducing the interest that is incurred when an overdraft occurs for a long space of time.

3

Reducing the advertising for the months of September and October has the advantage of reducing the net cash outflow for these months. Because we are not pausing the advertising altogether, and there was advertising in previous months, the effect could be minimal on the business as consumers are already aware of his company. The owner temporarily switches to cheaper advertisements, such as taking out smaller ads or switching to black and white rather than colour. The disadvantages of reducing the advertising is that Crusty Crayfish runs the risk that in earlier months more people could have viewed the advertisements, therefore Crusty Crayfish could possibly face a loss of potential sales in September and October. As well as this, a competitor to Crusty Crayfish could purchase the advertising spaces that the owner has forfeited. Therefore, Crusty Crayfish could run the risk of losing clients to their competitors if they see their advertisements. Smaller, black and white advertisements will be less prominent to clients and restaurants, but they are still featured so it may have minimal impact on sales.

3

4

The most appropriate response by the business is to reduce advertising, cut back on personal drawings, and invest capital. This is because if Crusty Crayfish makes any cuts to the other possible cash outflows, such as crayfish expenses, this could affect the quality of the crays or lead to greater costs in the future

5

	Grade Boundary: High Achieved
4.	<p>For Achieved, the student needs to demonstrate understanding of cash flow forecasting for a business.</p> <p>This involves using software to show receipts and payments in a cash flow forecast, showing the effect of variation of an external factor on the cash flow forecast, and explaining the effect of variation of an external factor on the business.</p> <p>The student has used spreadsheet software to provide a cash flow forecast and has shown the effect of the camera installation and monitoring fee on the spreadsheet (1).</p> <p>The student has explained the effect of the variation using the figures from the first cash flow spreadsheet before the responses were added (2).</p> <p>The student entered four responses to the unexpected fee on the cash flow forecast. These were an extension to the overdraft, an injection of \$20,000 capital, reduction in drawings and advertising, and a four-month loan repayment holiday (3).</p> <p>Some of the positive and negatives of three adjustments or responses, injecting capital, reducing drawings and reducing advertising, have been explained (4).</p> <p>To reach Merit, the student could provide more depth to their explanations of the responses, and recognise a feasibility issue around applying for a four-month loan repayment holiday when the loan was only drawn down in July. The need to apply to extend the overdraft also needs to be explained.</p>

Student 4: High Achieved
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**Crusty Crayfish Business**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Capital					20,000			
Loan			100,000					
<b>Total Cash Inflow</b>	<b>0</b>	<b>0</b>	<b>151,000</b>	<b>71,000</b>	<b>91,000</b>	<b>71,000</b>	<b>71,000</b>	<b>71,000</b>

	May	June	July	August	September	October	November	December
<b>Cash Outflows</b>								
Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	3,500	3,500	3,500	3,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
Advertising	500	500	1,500	1,500	250	250	250	250
Extended OD fee					500	500	500	
Loan Repayment			3,000	3,000	0	0	0	0
Monitoring fee					50,000			
<b>Total Cash Outflow</b>	<b>29,680</b>	<b>24,180</b>	<b>159,001</b>	<b>73,601</b>	<b>110,851</b>	<b>60,851</b>	<b>60,851</b>	<b>60,351</b>

Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,462	-29,313	-19,164	-9,015
Net Cash Flow	-29,680	-24,180	-8,001	-2,601	-19,851	10,149	10,149	10,649
Closing Bank Bal	25,320	1,140	-6,861	-9,462	-29,313	-19,164	-9,015	1,634

This unexpected monitoring fee has an effect on the business and puts the closing bank balance into negative figures. This is shown on the cash flow forecast with areas highlighted in yellow. From July (due to the \$100,000 paid for the quote) the closing bank balance was already in the red. In August the closing bank balance was -9,462 and due to this unexpected monitoring fee in September the closing bank balance falls into more debt and is at -54,063. 2

One possible response that Crusty Crayfish could implement to help with this is the owner taking less drawings out of the business each month. By decreasing his personal drawings, he can spend less on his cash outflow and focus on getting the business back into positive figures. He may use the drawings he takes out of the business for his personal use such as grocery shopping. By decreasing his drawings per month from \$4500 down to \$3500 means he now has less cash to spend on things other than the business purposes. He will no longer be able to withdraw \$4500 until he gets out of debt and is in surplus position which will be in January. 3 4

Another adjustment I would recommend to the owner is to cut the advertising expenses, decrease each month by \$1250 from \$1500 down to \$250. 3

This still enables the owner to spend a small amount of money on advertising. He can use cheaper alternatives such as free advertising on social media pages such Instagram and Facebook to promote and advertise his business. He can also advertise by sticking up posters around town. A negative effect is that Crusty Crayfish may lose customers to competitors with superior and more expensive ways of advertising that attracts more customers. This is a risk as people mightn't find out about Crusty Crayfish, as there is very limited advertising, and they may lose new clients to other competitors. This could result in a loss of potential sales affecting the business's estimated cash inflow. However, when the business gets out of debt, he can increase his advertising to attract more customers. 4 4

Another adjustment I have made to Crusty Crayfish is to inject more capital of \$20,000 into the business. Crusty Crayfish could have taken out a loan to pay to pay back the unexpected fee, but by choosing to inject more capital into the business he has more control and because he took out a loan previously of \$100,000, he already has a loan repayment of \$3000 each month. By choosing not to take out a loan he won't have to pay as much if he were to get a loan and have to pay as much interest. 3 4

A negative effect of injecting this amount of capital into the business is that he will be using his personal cash for business use and may face the chance of losing the capital he invested if the business goes into further debt in the future and he has to liquidate the business. Therefore, he would lose his personal cash that he invested into the business. 4

Another adjustment I have decided is for the owner to apply for a 4-month loan holiday and restart loan repayments in January. This is why I have changed the figure down from \$3000 a month to \$0 on the cash flow forecast. The debt is gradually decreasing meaning that Crusty Crayfish is likely to get out of the red, providing everything remains the same and no other unexpected expenses interfere. 3

	Grade Boundary: Low Achieved
5.	<p>For Achieved, the student needs to demonstrate understanding of cash flow forecasting for a business.</p> <p>This involves using software to show receipts and payments in a cash flow forecast, showing the effect of variation of an external factor on the cash flow forecast, and explaining the effect of variation of an external factor on the business.</p> <p>The student has used spreadsheet software to provide a cash flow forecast and has shown the effect of the camera installation and monitoring fee on the spreadsheet. (1).</p> <p>The student's responses to the unexpected fee were extending the overdraft, injecting \$15,000 capital, reducing drawings and advertising, and changing the conditions of the loan to reduce repayments. As the unexpected invoice arrived at the end of July, the changes to drawings, advertising and loan repayment for May to July are premature (2).</p> <p>Some of the positive and negatives of four responses, injecting capital, reducing drawings and advertising, and changing the loan conditions have been briefly explained (3).</p> <p>For a more secure Achieved, the student could enter the responses to the camera installation and monitoring fee in the correct months to demonstrate a more accurate understanding of cash flow forecasting.</p> <p>The student also needs to explain the need to apply for an extension to the overdraft to ensure payments are not dishonoured by the bank.</p>

**Crusty Crayfish Business**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Loan			100,000					
Capital Injection					15,000			
<b>Total Cash Inflow</b>	<b>0</b>	<b>0</b>	<b>151,000</b>	<b>71,000</b>	<b>86,000</b>	<b>71,000</b>	<b>71,000</b>	<b>71,000</b>
<b>Cash Outflows</b>								
Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
Provisional Tax	8,000			8,000				
② Personal drawings	3,000	3,000	3,500	3,500	3,500	3,500	3,500	3,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
② Advertising	375	375	1,125	1,125	1,125	1,125	1,125	
Loan Repayment			1,000	1,000	1,000	1,000	1,000	1,000
① Installation of camera fee					50,000			
Overdraft fee					500	500	500	
<b>Total Cash Outflow</b>	<b>28,055</b>	<b>22,555</b>	<b>155,626</b>	<b>70,226</b>	<b>112,726</b>	<b>62,726</b>	<b>62,726</b>	<b>61,101</b>
Opening Bank Bal	55,000	26,945	4,390	-236	538	-26,188	-17,914	-9,640
Net Cash Flow	-28,055	-22,555	-4,626	774	-26,726	8,274	8,274	9,899
Closing Bank Bal	26,945	4,390	-236	538	-26,188	-17,914	-9,640	259

The possible responses for Crusty Crayfish business as a result of the Ministry of Fisheries camera installation and monitoring fee of \$50,000. ②

- Negotiate with the bank to change the terms of the loan from a 3-year loan with a floating interest rate at 5.25% to a 6-year loan with the first year being interest free. This will decrease the cost of the loan from \$3,000 per month to \$1,000 per month, overall saving \$12,000.
- Find cheaper methods and strategies of advertising. Currently he is paying \$500 in May and June and \$1,500 from July to December. I suggest they find a new method of advertising saving 25% of this cost. The business should cut advertising for the month of December as advertising has already taken place and people will know about the business. This action all together will save \$6,375
- Decrease the owner's drawings in May and June from \$4,500 to \$3,000 as he is not in the crayfish season during these months. In the months of July to December his drawings will increase from \$3,000 to \$3,500 as he may need more money during the crayfish season. Overall, this will save the business \$9,000 ②
- The owner should inject some capital into the business from his personal savings. A capital injection of \$15,000 in the month of September will help him keep the bank balance of his business out of the negative. This will increase the Crayfish business's cash flow by \$15,000.

Negotiating new terms with the bank will change the loan from a 3-year loan to a 6-year loan with no principal payments for the first year. This was calculated using the ASB Calculator.

The downside of this response is the business will have to deal with the loan for longer meaning that overtime they will eventually have paid more money to the bank as interest repayments will be paid for a longer period. ③

Finding a new method of advertising is a great strategy for the business. He can spend less money on advertising by doing more direct advertising, meaning he will use less money on general advertising, and instead target the specific audience he wants to attract to his crayfish business. It shouldn't affect his sales, and he can cut his advertising in December as he has advertised in all the months leading up to December. The downside could be the potential market he is targeting increases meaning he could lose potential customers who don't see his advertising and marketing. ③

Decreasing personal drawings will save the business \$9,000, a disadvantage is that with the decrease the owner would not be able to live the same life as before, maybe making him possibly more stressed and less happy with life. ③

Introducing a capital injection of \$15,000 will also increase the cash flow of the business by \$15,000 bringing Crusty Crayfish business out of overdraft and into positive figures. ③

	Grade Boundary: High Not Achieved
6.	<p>For Achieved, the student needs to demonstrate understanding of cash flow forecasting for a business.</p> <p>This involves using software to show receipts and payments in a cash flow forecast, showing the effect of variation of an external factor on the cash flow forecast, and explaining the effect of variation of an external factor on the business.</p> <p>The student has used spreadsheet software to produce a cash flow forecast and has shown the effect of the monitoring fee on the forecast (1).</p> <p>The student responded to the monitoring fee on the cash flow forecast by reducing advertising. As the unexpected invoice arrived at the end of July, the reduction in advertising for May to July is premature (2).</p> <p>While some of the positive and negatives of reducing advertising have been briefly explained (3), this response alone is insufficient to cover the deficit caused by the monitoring fee. It is necessary for the student to make other adjustments to the forecast. They could consider increasing debt, decreasing another expense or having the owner inject further capital.</p> <p>To reach Achieved, the student could include more detail in their explanation of the effects of the variations on the forecast. The increase in the deficit for September, due to payment of the fee needs to be explained using correct accounting language. The negative bank balance or deficit is not an overdraft unless this facility has been pre-arranged on the account (4).</p> <p>The response to the unexpected invoice needs to be entered into the correct months to demonstrate an accurate understanding of cash flow forecasting.</p>

**Crusty Crayfish Business**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Loan			100,000					
<b>Total Cash Inflow</b>	<b>0</b>	<b>0</b>	<b>151,000</b>	<b>71,000</b>	<b>71,000</b>	<b>71,000</b>	<b>71,000</b>	<b>71,000</b>

**Cash Outflows**

Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
2 Advertising	500	500	500	500	500	500	500	500
1 Invoice Fee					50,000			
Loan Repayment			3,000	3,000	3,000	3,000	3,000	3,000
<b>Total Cash Outflow</b>	<b>29,680</b>	<b>24,180</b>	<b>158,001</b>	<b>72,601</b>	<b>114,601</b>	<b>64,601</b>	<b>64,601</b>	<b>64,601</b>

Opening Bank Bal	55,000	25,320	1,140	-5,861	-7,462	-51,063	-44,664	-38,265
Net Cash Flow	-29,680	-24,180	-7,001	-1,601	-43,601	6,399	6,399	6,399
Closing Bank Bal	25,320	1,140	-5,861	-7,462	-51,063	-44,664	-38,265	-31,866

The Ministry of Fisheries sent Crusty Crayfish an invoice of \$50,000 at the end of July which will decrease the business bank (closing) balance for September from -4,063 to -54,063.

4

This is a huge increase of overdraft.

If Chris doesn't pay this invoice his remote monitoring and installation of cameras for his crayfish boats will not be operating. If it doesn't operate then he could receive a big fine for not following regulations.

To be able to afford the monitoring fee the business could cut back advertising from July to December from \$1,500 to \$500 and could save \$1,000 a month, so save \$6,000.

Chris can spend less money on advertising by doing direct advertising and target the customers he wants to attract to his crayfish business. For example, he could send fliers to restaurants or other businesses that could be interested in buying crayfish.

He could also use social media to advertise but platforms like Facebook and Instagram are probably not that relevant to a commercial crayfish business.

3

The problem with reducing advertising is that sales and profit might be affected. However, once the effect of having to pay the \$50,000 fee has passed, he will be able to start advertising at the same level again.