Subject Content	What students need to learn?
1.3.3 Cash and cash-flow	The importance of cash to a business: ● to pay suppliers, overheads and employees ● to prevent business failure (insolvency) ● the difference between cash and profit. Calculation and interpretation of cash-flow forecasts: ● cash inflows ● cash outflows ● net cash flow ● opening and closing balances.

Cash Flow

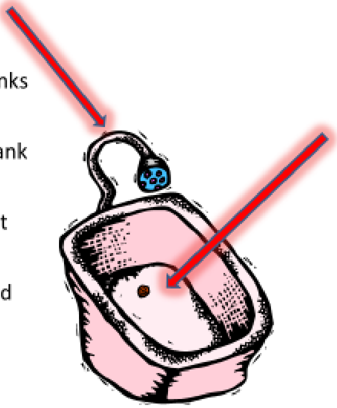
Cash flow is the money that **flows into and out of the business on a day to day basis**

Money that flows **INTO** the business are known as **CASH INFLOWS**

Money that flows **OUT** of the business are known as **CASH OUTFLOWS**

IN

- Sales
- Loans from banks
- Interest on money in the bank (savings)
- Sale of an asset (like a Lorry)
- Money invested by a businesses owners
- Grants from governments



OUT

- Purchase of stock/raw materials
- Wages/salaries
- Interest on loans
- Bills (electricity)
- Rent/mortgage
- Taxes
- Business rates
- Start up costs

Key Definitions:

Cash: 'The money a firm holds in **notes** and **coins** and in its bank **account**.'

Cash Flow: 'The movement of money **in** and **out** of the business.'
Cash Flow forecast: 'Estimating the **likely** flows of cash over the coming months – therefore showing the state of a business's bank balance

Why is cash important?

Cash is like air; profit is like food. You need cash all the time but you can survive for a while without profit.

Cash is needed to:

- Pay suppliers
- Overheads e.g rent
- Employee wages

Cash and profit are DIFFERENT – you need to remember this and understand the reasons why

If a business does not have enough cash to pay for these things it is likely they will fail as they will have become **insolvent.** (Not enough cash topay their debts.)

Cash flow forecast

- Cash **IN**
- Cash **OUT**
- **Net cash flow** – the difference between cash in (inflows) and cash out (outflows). You want this to be in **CREDIT**
- **Opening balance** – a businesses cash position at the start of the month (*Use last months closing balance)*
- **Closing balance** – how much a business has at the end of the month. **It is calculated by: adding the net cash flow and the opening balance**. This figure then becomes the opening balance for next month