

1. Read **Item C** and then answer the questions that follow.

Item C

The Plumbing Place sells spares and parts to plumbers and the public. Trade credit facilities are made available to the trade.

In the past, *The Plumbing Place* has suffered cash-flow problems. These cash-flow problems have occurred because the business has had to buy stock before its peak sales period during the winter months.

- (a) What is trade credit?

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(1 mark)

- (b) Why would *The Plumbing Place* offer trade credit?

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(2 marks)

- (c) It was decided to prepare a cash-flow forecast for the next four months ended 31 October 2003. The forecast will take into account employing a new member of staff in October. This will raise the monthly wages bill from £2 000 to £3 500 per month and the purchase of new equipment in August at a cost of £3 400.

Complete *The Plumbing Place* cash-flow forecast below by calculating:

- the closing balance for July;
- the net monthly cash flow for August;
- the credit sales for September;
- the total outflow for October.

You should insert your answers in the **shaded** boxes below.

The Plumbing Place Cash-flow Forecast for the four months ended 31 October 2003.

	July	August	September	October
CASH IN				
Cash sales	5 100	5 200	5 300	6 000
Credit sales	7 200	8 400		10 400
Total inflow	12 300	13 600	14 600	16 400
CASH OUT				
Payments for stock	11 500	11 500	12 000	12 000
Wages	2 000	2 000	2 000	3 500
Purchase of new equipment		3 400		
Other costs	2 100	2 100	2 200	2 200
Total outflow	15 600	19 000	16 200	
Net monthly cash flow	(3 300)		(1 600)	(1 300)
Opening balance	10 000	6 700	1 300	(300)
Closing balance		1 300	(300)	(1 600)

(4 marks)

- (d) Using the cash-flow forecast, identify **two** actions that *The Plumbing Place* could take to help solve its cash-flow problems. Explain your answers.

Action 1

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Explanation

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(4 marks)

Action 2

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Explanation

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(4marks)