Mohannad Galal set up in business as a Sole Trader 9 years ago. He called his business Flowers Park Supplies. Mohannad designs and looks after the gardens of hotels, offices and large private houses. The business is very busy in the spring, summer and autumn but not busy in the winter. Mohannad employs 6 full-time employees. These employees have been with him for the past 4 years. Experienced gardeners are not always easy to find.

* Flowers Park Supplies grows about 50% of the plants that it supplies to customers. The revenue of the business varies throughout the year, but expenses occur every month.
* Look at the cash flow forecast for the next financial year on the next slide. There is a cash flow problem. You have been asked by Mohannad to consider this problem and make recommendations as to what he can do to solve it.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Aug ($)** | **Sept ($)** | **Oct ($)** | **Nov ($)** | **Dec ($)** | **Jan ($)** | **Feb ($)** | **Mar ($)** | **Apr ($)** | **May ($)** | **Jun ($)** | **Jul ($)** |
| **Cash Inflows** |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash Sales | 70000 | 80000 | 1000 | 1400 | 200 | 200 | 1000 | 50000 | 80000 | 80000 | 60000 | 60000 |
| **Cash Outflows** |  |  |  |  |  |  |  |  |  |  |  |  |
| Wages | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 | 20000 |
| Plants and trees purchased | 20000 | 0 | 0 | 0 | 0 | 0 | 0 | 20000 | 20000 | 20000 | 20000 | 20000 |
| Seeds and Compost | 0 | 6000 | 6000 | 0 | 0 | 6000 | 8000 | 8000 | 7000 | 0 | 0 | 0 |
| Heating & Water | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 | 1000 |
| Bank Interest | 0 | 0 | 0 | 0 | 0 | 1018 | 3549 | 4649 | 3150 | 910 | 216 | 0 |
| Business tax on land | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| **Total cash outflow** | 41100 | 27100 | 27100 | 21100 | 21100 | 28118 | 32649 | 63749 | 61250 | 52010 | 51316 | 51100 |
| **Opening bank balance** | 100 | 29000 | 81900 | 55800 | 36100 | 15200 | (12718) | (44367) | (58116) | (39366) | (11376) | (2692) |
| **Net cash flow** | 28900 | 52900 | (26100) | (19700) | (20900) | (27918) | (31649) | (13749) | 18750 | 27990 | 8684 | 8900 |
| **Closing bank balance** | 29000 | 81900 | 55800 | 36100 | 15200 | (12718) | (44367) | (58116) | (39366) | (11376) | (2692) | 6208 |

Cash flow forecast for Flowers Park Supplies 2015/16. All figures in brackets are negative.

**Activity 22.5**

1. Why is cash flow forecasting important to managers such as Mohannad?

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1. Who else, apart from Mohannad, is likely to be interested in a cash flow forecast for Flowers Park Supplies? Give reasons for your answer.

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1. Why do some costs stay the same each month? Use examples to explain your answer.

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1. Why do some vary each month? Use examples to explain your answer.

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1. Mohannad has just been informed that his supplier of plants and trees will raise prices by 10% in July 2016. Explain how the cash flow forecast for Flowers Park Supplies will be affected.

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1. Mohannad wants to improve the cash flow of his business, Suggest 3 ways to Mohannad of improving the cash flow of Flowers Park Supplies. Explain their advantages and disadvantages, Recommend which was he should choose.

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