The manager of El Kalili Motors Ltd. Wants to plan the cash flows of the business over the next four months. She asks for your help in making a cash flow forecast. She provides you with the following information:

* Forecasted sales are: January $22,000; February $25,000; March $20,000; April $22 000.
* Customers always pay cash
* Materials are purchased each month and paid for in cash. The materials used each month are 50% of sales revenue for that month.
* Other cash expenses (wages, rent, insurance etc.) are forecast to be: January $4000; the opening cash balance is January is $2000.

Activity 22.4: Creating a Cash Flow Statement

1. Explain to the manager the importance of a Cash Flow Statement

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1. Using the same structure on Slide 14, draw up a cash flow forecast for this business over the 4 months from January to April.

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| --- | --- | --- | --- | --- |
| **Cash Inflows** | **January** | **February** | **March** | **April** |
| Cash Sales |  |  |  |  |
| Payments from Debtors |  |  |  |  |
| **Total Cash Inflows** |  |  |  |  |
| **Cash Outflows** |  |  |  |  |
| Materials and wages |  |  |  |  |
| Rent and other expenses |  |  |  |  |
| **Total Cash Outflows** |  |  |  |  |
| **Opening Bank Balance** |  |  |  |  |
| **New Cash Flow** |  |  |  |  |
| **Closing Bank Balance** |  |  |  |  |

1. What do you notice about the closing balance in April? What action could the manager of El Kalili Motors Ltd. Take now she is aware of this problem?

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