Your notes

GCSE Business: revision notes

Cash flow

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Cash and profit

- **Cash flow** is the money flowing into and out of a business. Inflows include sales, loans and owners' capital. Outflows include wages, payments to suppliers, rent and loan repayments.
- Cash isn't the same as profit: a profitable business can run out of cash, for example if customers pay late, and may become insolvent.

Cash flow forecasts

- **Net cash flow** = total inflows – total outflows. **Closing balance** = **opening balance** + net cash flow. Each month's closing balance becomes the next month's opening balance.
- Example: an **opening balance** of £2,000, inflows of £5,000 and outflows of £6,500 give a **net cash flow** of –£1,500 and a **closing balance** of £500.

Solving cash flow problems

- Use an overdraft or short-term loan, negotiate longer trade credit with suppliers, ask customers to pay sooner, reduce stock, cut costs, sell unused assets, or reschedule payments.
- Forecasting helps a business pay its bills and wages, plan when it needs finance, and show lenders it is well managed.

Key terms

Cash flow	The money flowing into and out of a business.
Cash inflow	Money coming into a business, such as from sales.
Cash outflow	Money leaving a business, such as wages.
Net cash flow	Total cash inflows minus total cash outflows.
Opening balance	The cash a business has at the start of a period.

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Closing balance	The cash a business has at the end of a period.
Cash flow forecast	A prediction of a business's future inflows and outflows.
Insolvency	Being unable to pay debts when they are due.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is a cash inflow?
2. What is a cash outflow?
3. How is net cash flow calculated?
4. How is the closing balance calculated?
5. The opening balance is £2,000, inflows are £5,000 and outflows are £6,500. What is the closing balance?
6. Inflows are £5,000 and outflows are £6,500. What is the net cash flow?
7. Why can a profitable business run out of cash?
8. What is insolvency?

Answers

1. Money coming into a business, such as from sales
2. Money leaving a business, such as wages
3. Total inflows minus total outflows
4. Opening balance plus net cash flow
5. £500
6. –£1,500
7. Customers may pay late, while bills must be paid now
8. Being unable to pay debts when they are due

What to do next

Practise 12 questions on this topic

Try 4 exam questions, with mark schemes

Read the lesson, one step at a time

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