

## ‘The Green Gardener’ Cash Flow Forecasts

Tom Smith set up in business as a sole trader nine years ago. He called his business The Green Gardener. Tom designs the gardens for hotels, offices and large private houses. He also maintains customers’ gardens. The business is very busy in the spring, summer and autumn but not very busy in winter.

Tom is a sole trader and therefore the owner of the business. He employs six full-time employees. These employees have been with him for the past four years; experienced gardeners are not always easy to find.

The Green Gardener has a small amount of land with six greenhouses although there is space for more. The Green Gardener grows about 50 per cent of the plants that it supplies to customers. The work is seasonal and so are the incomes to the business, but expenses occur every month. Look at the cash flow forecast below to see what is likely to happen in the next financial year. There is a cash flow problem. You have been asked by Tom to consider this problem and make recommendations as to what he can do to solve it.

*Cash flow forecast for The Green Gardener 2008/9. All figures in brackets are negative.*

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
	£	£	£	£	£	£	£	£	£	£	£	£
<b>Cash Inflows</b>												
Sales Revenue	70,000	80,000	1,000	1,400	200	200	1,000	50,000	80,000	80,000	60,000	60,000
<b>Cash Outflows</b>												
Wages	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Plants	20,000	0	0	0	0	0	0	30,000	30,000	30,000	30,000	30,000
Seeds	0	6,000	6,000	0	0	6,000	8,000	8,000	7,000	0	0	0
Heating & Water	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Bank Interest	0	0	0	0	0	1,018	3,549	4,649	3,150	910	216	0
Tax	100	100	100	100	100	100	100	100	100	100	100	100
<b>Total Outflow</b>	<b>41,100</b>	<b>27,100</b>	<b>27,100</b>	<b>21,100</b>	<b>21,100</b>	<b>28,118</b>	<b>32,649</b>	<b>63,749</b>	<b>61,250</b>	<b>52,010</b>	<b>51,316</b>	<b>51,100</b>
<b>Opening Balance</b>	<b>100</b>	<b>29,000</b>	<b>81,900</b>	<b>55,800</b>	<b>36,100</b>	<b>15,200</b>	<b>(12,718)</b>	<b>(44,367)</b>	<b>(58,116)</b>	<b>(39,366)</b>	<b>(11,376)</b>	<b>(2,692)</b>
Net Cash Flow	28,900	52,900	(26,100)	(19,700)	(20,900)	(27,918)	(31,649)	(13,749)	18,750	27,990	8,684	8,900
<b>Closing Balance</b>	<b>29,000</b>	<b>81,900</b>	<b>55,800</b>	<b>36,100</b>	<b>15,200</b>	<b>(12,718)</b>	<b>(44,367)</b>	<b>(58,116)</b>	<b>(39,366)</b>	<b>(11,376)</b>	<b>(2,692)</b>	<b>6,208</b>

- a) Why is cash flow forecasting important to managers such as Tom?
- b) Who else, apart from Tom, is likely to be interested in a cash flow forecast for The Green Gardener? Give reasons for your answer.
- c) Refer to the cash flow forecast.
  - i. Why do some costs stay the same every month? Use an example to explain your answer.
  - ii. Why do some costs vary in some months? Use an example to explain your answer.
- d) Tom has just been informed that his major supplier of plants and trees is about to raise prices. If these costs rise how will the cash flow forecast for The Green Gardener be affected?
- e) What can be done to improve the cash flow of this business? Make three recommendations to Tom, explaining their advantages and disadvantages, for improving the cash flow of The Green Gardener.