

Student 3: Low Merit
NZQA Intended for teacher use only

Crusty Crayfish Business

	May	June	July	August	September	October	November	December
Cash Inflows								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Capital					35,000			
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Total Cash Inflow	0	0	151,000	71,000	106,000	71,000	71,000	71,000

Cash Outflows

Cray Fish Expenses	10,000	10,000	36,400	36,400	36,400	36,400	36,400	36,400
Accounts Payable		2,500	2,500	9,100	9,100	9,100	9,100	9,100
Quota			100,000					
Provisional Tax	8,000			8,000				
Personal drawings	4,500	4,500	4,500	4,500	1,000	1,000	4,500	4,500
Advertising	500	500	1,500	1,500	500	500	1,500	1,500
Extend overdraft fee					500			
Monitoring Fee					50,000			
Loan Repayment			3,000	3,000	3,000	3,000	3,000	3,000
Total Cash Outflow	29,680	24,180	159,001	73,601	111,601	61,101	65,601	65,601

Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,462	-15,063	-5,164	235
Net Cash Flow	-29,680	-24,180	-8,001	-2,601	-5,601	9,899	5,399	5,399
Closing Bank Bal	25,320	1,140	-6,861	-9,462	-15,063	-5,164	235	5,634

The unexpected \$50,000 remote monitoring fee on Crusty Crayfish has increased the total cash outflows for September by \$50,000. This has led to a Net Cash Flow decrease of \$50,000, which would cause the bank balance to be overdrawn by \$54,063.

1

The pre-arranged overdraft facility with the bank (that has gone over its \$10,000 limit) needs to be extended, so a \$500 extension fee will apply to September, so the overdraft will cover this cash shortage during September and October.

2

The combined responses of increasing capital by \$35,000, decreasing advertising by \$1000, and cutting back on personal drawings by \$3500 reduces the overdrawn bank balance from -\$54,063 to -\$15,063. As mentioned earlier, the prearranged (and now extended) overdraft facility means that the bank will cover the extra cash shortage in September/October. In November, Crusty Crayfish will still be in overdraft at -\$5164, but the bank should cover this. In December we expect the bank balance to no longer be overdrawn and sit at a positive closing balance of \$5634.

2

Introducing an additional \$35,000 from the owner's personal savings has the advantage of increasing the total cash flow for the month of September. This would be a one-off receipt for the business that the doesn't have to be repaid, allowing the business to get out of debt quicker. It also reduces the risks that would become evident if the loan was extended. By doing this, the owner is also increasing his ownership of the business as he is reducing his need to borrow. This means in the future, he could still expand, as the bank will not think he is too risky. This is because through the injection of capital, the interest payments on the overdraft are reduced, as an extended overdraft from the bank is only needed for the two months he is in extra debt (September and October), as he is back to a positive balance of \$235 by end of November.

3

3

A disadvantage could be that owner's personal savings account decreases and he may find himself in a difficult financial situation, but this is what is best for the business and needs to happen if he wants to operate into the foreseeable future, debt free.

4

Reducing personal drawings by \$3500 to \$1000 for September and October has the advantage of reducing the interest that is incurred when an overdraft occurs for a long space of time.

3

Reducing the advertising for the months of September and October has the advantage of reducing the net cash outflow for these months. Because we are not pausing the advertising altogether, and there was advertising in previous months, the effect could be minimal on the business as consumers are already aware of his company. The owner temporarily switches to cheaper advertisements, such as taking out smaller ads or switching to black and white rather than colour. The disadvantages of reducing the advertising is that Crusty Crayfish runs the risk that in earlier months more people could have viewed the advertisements, therefore Crusty Crayfish could possibly face a loss of potential sales in September and October. As well as this, a competitor to Crusty Crayfish could purchase the advertising spaces that the owner has forfeited. Therefore, Crusty Crayfish could run the risk of losing clients to their competitors if they see their advertisements. Smaller, black and white advertisements will be less prominent to clients and restaurants, but they are still featured so it may have minimal impact on sales.

3

4

The most appropriate response by the business is to reduce advertising, cut back on personal drawings, and invest capital. This is because if Crusty Crayfish makes any cuts to the other possible cash outflows, such as crayfish expenses, this could affect the quality of the crays or lead to greater costs in the future

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