

Student 4: High Achieved
NZQA Intended for teacher use only

**Crusty Crayfish Business**

	May	June	July	August	September	October	November	December
<b>Cash Inflows</b>								
Sales (cash)	0	0	51,000	51,000	51,000	51,000	51,000	51,000
Accounts Receivable	0	0	0	20,000	20,000	20,000	20,000	20,000
Capital					20,000			
Loan			100,000					
Total Cash Inflow	0	0	151,000	71,000	91,000	71,000	71,000	71,000

	May	June	July	August	September	October	November	December
<b>Cash Outflows</b>								
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	3,500	3,500	3,500	3,500
Wages - Employees	6,680	6,680	11,101	11,101	11,101	11,101	11,101	11,101
Advertising	500	500	1,500	1,500	250	250	250	250
Extended OD fee					500	500	500	
Loan Repayment			3,000	3,000	0	0	0	0
Monitoring fee					50,000			
Total Cash Outflow	29,680	24,180	159,001	73,601	110,851	60,851	60,851	60,351

Opening Bank Bal	55,000	25,320	1,140	-6,861	-9,462	-29,313	-19,164	-9,015
Net Cash Flow	-29,680	-24,180	-8,001	-2,601	-19,851	10,149	10,149	10,649
Closing Bank Bal	25,320	1,140	-6,861	-9,462	-29,313	-19,164	-9,015	1,634

This unexpected monitoring fee has an effect on the business and puts the closing bank balance into negative figures. This is shown on the cash flow forecast with areas highlighted in yellow. From July (due to the \$100,000 paid for the quote) the closing bank balance was already in the red. In August the closing bank balance was -9,462 and due to this unexpected monitoring fee in September the closing bank balance falls into more debt and is at -54,063. 2

One possible response that Crusty Crayfish could implement to help with this is the owner taking less drawings out of the business each month. By decreasing his personal drawings, he can spend less on his cash outflow and focus on getting the business back into positive figures. He may use the drawings he takes out of the business for his personal use such as grocery shopping. By decreasing his drawings per month from \$4500 down to \$3500 means he now has less cash to spend on things other than the business purposes. He will no longer be able to withdraw \$4500 until he gets out of debt and is in surplus position which will be in January. 3 4

Another adjustment I would recommend to the owner is to cut the advertising expenses, decrease each month by \$1250 from \$1500 down to \$250. 3

This still enables the owner to spend a small amount of money on advertising. He can use cheaper alternatives such as free advertising on social media pages such Instagram and Facebook to promote and advertise his business. He can also advertise by sticking up posters around town. A negative effect is that Crusty Crayfish may lose customers to competitors with superior and more expensive ways of advertising that attracts more customers. This is a risk as people mightn't find out about Crusty Crayfish, as there is very limited advertising, and they may lose new clients to other competitors. This could result in a loss of potential sales affecting the business's estimated cash inflow. However, when the business gets out of debt, he can increase his advertising to attract more customers. 4 4

Another adjustment I have made to Crusty Crayfish is to inject more capital of \$20,000 into the business. Crusty Crayfish could have taken out a loan to pay to pay back the unexpected fee, but by choosing to inject more capital into the business he has more control and because he took out a loan previously of \$100,000, he already has a loan repayment of \$3000 each month. By choosing not to take out a loan he won't have to pay as much if he were to get a loan and have to pay as much interest. 3 4

A negative effect of injecting this amount of capital into the business is that he will be using his personal cash for business use and may face the chance of losing the capital he invested if the business goes into further debt in the future and he has to liquidate the business. Therefore, he would lose his personal cash that he invested into the business. 4

Another adjustment I have decided is for the owner to apply for a 4-month loan holiday and restart loan repayments in January. This is why I have changed the figure down from \$3000 a month to \$0 on the cash flow forecast. The debt is gradually decreasing meaning that Crusty Crayfish is likely to get out of the red, providing everything remains the same and no other unexpected expenses interfere. 3