

Cash Flow and Cash Cycle

SL

Worksheet

Suggested time	Total marks	Focus	Assessment
55 minutes	40	cash cycle, liquidity, short-term finance	Class/trimester worksheet

Teacher note: Reward precise application of cash-flow concepts to the business context provided.

Section A - Multiple choice (5 marks)

- The cash cycle is best defined as the time between [1]
 - setting a sales target and reviewing it
 - paying for inputs and receiving payment from customers
 - earning accounting profit and paying dividends
 - ordering stock and advertising it
- A long cash cycle is most likely to be faced by a business that [1]
 - sells snacks for cash at a school event
 - runs an automobile assembly operation before dealers pay
 - provides haircuts paid for immediately
 - collects rent in advance each month
- Offering an early-payment discount mainly aims to [1]
 - bring cash inflows forward
 - raise the selling price
 - increase the wage bill
 - lengthen customer credit
- An overdraft is best described as [1]
 - a long-term share issue
 - a reduction in variable costs
 - a grant from the government
 - a bank facility allowing withdrawals beyond the current balance
- A business can be profitable but still fail if it [1]
 - lowers its prices slightly
 - uses machinery in production
 - runs out of cash to pay bills on time
 - hires additional labour

Section B - Short answer (7 marks)

6. Define *cash flow* and *liquidity*. [4]

7. Explain one reason why an automobile manufacturer may face a long cash cycle. [3]

Section B - Short answer (6 marks)

8. Explain one benefit and one drawback of offering customers a discount for early payment. [3]

9. Distinguish between *profit* and *cash flow*. [3]

Section C - Data response / case study (12 marks)**MetroMakers EV Components**

MetroMakers produces battery housings for electric delivery vans. To prepare for a summer contract, managers increased output in March. The firm allows dealers 60 days to pay, but most wages and supplier bills must be settled much earlier.

Case study data	Value
Opening cash balance in March	\$160 000
Cash payments in March	\$420 000
Cash receipts in March	\$260 000
Expected wage bill in April	\$150 000
Available overdraft limit	\$100 000
Discount for payment within 10 days	4%

10. Using the data, explain why MetroMakers may face a cash shortage in March and April. [4]

11. Analyze one advantage and one disadvantage of using the overdraft to manage the shortfall. [4]

12. Recommend whether MetroMakers should prioritise tighter credit control or higher production over the next two months. [4]

Section D - Extended response (10 marks)

13. Evaluate whether tighter cash forecasting is more important than faster sales growth for businesses with long cash cycles. [10]

Continue on separate paper if needed.

Teacher answer key and marking guidance

Indicative answers are provided below. Equivalent valid points and alternative reasoned judgements should also receive credit where clearly supported.

Section A answers

Q	Answer	Guidance
1	B	It measures the delay between cash going out for inputs and cash coming back from sales.
2	B	Vehicle production requires major upfront spending before customers or dealers pay.
3	A	The discount encourages customers to pay sooner, improving short-term liquidity.
4	D	An overdraft is flexible short-term borrowing up to an agreed limit.
5	C	Profit is not the same as liquidity; unpaid bills can force closure even when profits exist.

Section B marking guidance

Q	Indicative marking guidance
6	Cash flow: the movement of money into and out of a business over time. Liquidity: the ability of the business to meet short-term obligations when they fall due.
7	Manufacturers often buy parts, pay labour, and hold work-in-progress or finished vehicles before receiving payment from dealers, so cash leaves the firm long before sales revenue is collected.
8	Benefit: earlier payment improves liquidity and reduces the risk of late debts. Drawback: the business sacrifices some revenue or margin on each sale.
9	Profit is revenue minus costs for an accounting period. Cash flow refers to the timing of actual receipts and payments. A business may show profit while still lacking cash at a particular moment.

Section C marking guidance

Q	Indicative marking guidance
10	March receipts are \$260 000 while payments are \$420 000, creating a net outflow of \$160 000 that would use up the opening cash balance. April wages of \$150 000 then create further pressure before dealer payments arrive.
11	Advantage: the overdraft provides immediate, flexible finance to cover a temporary gap. Disadvantage: interest increases costs and repeated use can create dependence on short-term borrowing or exceed the agreed limit.
12	A well-supported recommendation is tighter credit control because faster collection directly improves liquidity without further expanding working capital needs. Reward higher-production answers only if they clearly justify expected demand and financing capacity.

Section D marking guidance - Q13

Indicative content: Strong answers may compare the immediate protection provided by forecasting with the longer-term benefits of sales growth. Better responses show that forecasting helps businesses predict shortfalls, arrange finance, and schedule spending, but they also recognise that growth may be necessary if it improves future inflows and scale.

Marks	Descriptor
0	No relevant answer or answer not worthy of credit.
1-3	Limited knowledge and understanding shown; assertions are brief or only partly linked to the question.
4-6	Some analysis and application are shown. Answer includes relevant business terminology and a partially supported judgement.
7-8	Good analysis with clear application to the issue. Arguments are balanced and a supported judgement is made.
9-10	Strong evaluative answer with accurate business terminology, well-developed arguments, and a clear justified conclusion.