

**Below please find a sample of
A CONCISE REVISION OF HSC BUSINESS STUDIES**

HSC TOPIC 2: FINANCIAL PLANNING AND MANAGEMENT

Sheet 5 Effective financial planning

The syllabus outlines two areas in effective financial planning:

Effective Cash Flow management

A **cash flow statement** usually shows monthly movements of cash in a firm. It starts with a beginning balance, adds inflows, subtracts outflows and gives a final balance.

	March	April	May	June	July	August
Opening balance	\$1200	3200	2200	7000	4000	-2000
Cash inflow	12000	13000	14800	11000	10000	13000
Cash outflow	10000	14000	10000	14000	16000	10000
Closing balance	3200	2200	7000	4000	-2000	1000

It can be seen from the above that the closing balance from one month becomes the opening balance for the next. In July the firm had a shortfall in cash due to higher than normal outflows.

Two cash flow **management strategies** are listed in the syllabus:

- a. **Distribution of payments** – If a major cost occurs in one month, say insurance, a firm should negotiate with the provider to spread the payment over the year.
- b. **Discounts for early payments** – To boost cash inflow, giving credit customers a discount for early repayment of debts is a useful strategy.

Effective Profitability management.

Profit is derived by subtracting expenses from revenues. To manage these, the syllabus lists the following strategies:

- a. **Cost Control** – **Fixed costs** such as rent may be reduced by finding a cheaper location. **Variable costs** like stock can be reduced by seeking newer, cheaper suppliers. Establishing **cost centres** within a firm to minimize each section's costs can be effective as awareness is raised about the concern. **Expense minimization** can range from simple things like photocopying on both sides of the paper to more complex strategies like outsourcing consultants after downsizing employees.
- b. **Revenue Controls** – To boost revenues a firm will try to increase sales. Setting **sales objectives**, such as targets or quotas for salespeople is one method used. The **sales mix** can also be altered, so that more emphasis is placed on high selling stock. **Pricing policy** can also be used eg., slow moving stock can be discounted during a 'sale' to boost revenue.

Sheet 5 Effective financial planning – Review Tasks

1. Complete the following Cash Flow Statement by filling in the blanks.

	March	April	May	June	July	August
Opening balance	\$1000			7000	4000	
Cash inflow	10000	21000	15000		10000	
Cash outflow	7000	18000		19000	6000	20000
Closing balance			7000	4000		2000

In which months was there a positive cash flow? _____
 In which months was there a negative cash flow? _____
 What is the most common strategy used by firms to manage negative cash flows?

2. Match the following terms to their corresponding definitions.

Terms: revenue controls, sales objectives, sales mix, pricing policy, cost control, fixed costs, variable costs, cost centres, expense minimization, effective profitability management.

- a. Costs that do not change with the level of production. _____
- b. Setting of targets or quotas for salespeople. _____
- c. Managing cost and revenue controls. _____
- d. Sections in a firm that check on expenditure on expenses. _____
- e. Overall methods used to reduce costs for a business. _____
- f. Strategies used to boost income for a firm. _____
- g. Costs that change with the level of production. _____
- h. Changing the emphasis on items for sale by a firm. _____
- i. Saving costs by cutting on expenses. _____
- j. Adjusting the amount charged for products to boost funds. _____

Sheet 5 Effective financial planning – Review Tasks – Answers

1. Complete the following Cash Flow Statement by filling in the blanks.

	March	April	May	June	July	August
Opening balance	\$1000	4000	12000	7000	4000	8000
Cash inflow	10000	21000	15000	16000	10000	14000
Cash outflow	7000	18000	20000	19000	6000	20000
Closing balance	4000	12000	7000	4000	8000	2000

In which months was there a positive cash flow?

March, April and July

In which months was there a negative cash flow?

May, June and August.

What is the most common strategy used by firms to manage negative cash flows?

Most firms establish an overdraft facility with their local bank to tide them over when they have a shortage of cash as shown by the over cash flow account.

2. Match the following terms to their corresponding definitions.

Terms: revenue controls, sales objectives, sales mix, pricing policy, cost control, fixed costs, variable costs, cost centers, expense minimization, effective profitability management.

- | | |
|--|---|
| a. Costs that do not change with the level of production. | fixed costs |
| b. Setting of targets or quotas for salespeople. | sales objectives |
| c. Managing cost and revenue controls. | effective profitability management |
| d. Sections in a firm that check on expenditure on expenses. | cost centers |
| e. Overall methods used to reduce costs for a business. | cost control |
| f. Strategies used to boost income for a firm. | revenue controls |
| g. Costs that change with the level of production. | variable costs |
| h. Changing the emphasis on items for sale by a firm. | sales mix |
| i. Saving costs by cutting on expenses. | expense minimization |
| j. Adjusting the amount charged for products to boost funds. | pricing policy |

MULTIPLE CHOICE REVIEW – Topic One

1. Business management can best be described as activities that
 - (A) meet the goals and objectives of the firm.
 - (B) involve organising staff and allocating resources.
 - (C) create strategic and tactical plans for the future.
 - (D) all of the above.

2. Possessing vision, being able to complete complex problem-solving and having adaptability to change are all
 - (A) roles of management.
 - (B) skills of management.
 - (C) functions of management.
 - (D) functions of stakeholders.

3. An example of an internal stakeholder would be
 - (A) employees.
 - (B) creditors.
 - (C) government.
 - (D) society as a whole.

4. Chad regularly meets with the subordinates under his span of control to discuss their training requirements. The management role Chad is fulfilling is an
 - (A) interpersonal role.
 - (B) informational role.
 - (C) decisional role.
 - (D) ethical role.

5. The CEO of Triffids Ltd has had extensive management training and draws on various aspects of most theories. He believes in adapting management and organisational approach to circumstances and so is following
 - (A) classical-scientific management theory.
 - (B) behavioural management theory.
 - (C) political management theory.
 - (D) systems/contingency management theory.