Chartered Institute of Credit Management

Accounting Principles

Level 3 Diploma in Credit Management

Exemplar Paper

Instructions to Candidates

Answer **all** questions. All questions carry equal marks. Time allowed 3 hours.

Candidates are reminded there are no optional elements in this examination.

Ledger accounts must be prepared in continuous running account balance format.

Financial statements must be prepared in vertical format.

FRS terminology should be used in responses wherever possible.

Credit balances should be clearly shown in brackets ( ) for clarity.

Where appropriate, VAT is to be calculated at 20%.

Questions start overleaf

1. a) Explain what is meant by 'current' and 'non-current' in relation to assets and liabilities, including suitable examples which confirm your understanding.
(4 marks)

b) Soraya has started her own retail business. Her father has lent her £35,000 as an investment. She has bought some inventory for £20,000, a small retail outlet for £25,000 and a vehicle for £12,500. She paid for the retail outlet and the vehicle, £7,500 on account for her inventory and £3,000 in full on fixtures and fittings for her retail outlet. So far, she has cash sales of £16,750. After all of these material transactions, she is £6,500 overdrawn at the bank and has £1,250 cash.

TASKS for part b)
In the context of an unincorporated business like Soraya's, using the above scenario facts as appropriate, and showing in full any workings:

i) Explain what is meant by the term 'capital' and calculate the capital in Soraya's retail business. (10 marks)

ii) Express what you now know about Soraya's business in a detailed accounting equation showing current and non-current categories separately. (2 marks)

c) Draw up a simple Gross Profit trading statement based upon what you now know about Soraya's business and briefly explain why profit, cash and capital are not identical accounting elements in a business. (4 marks)

Total 20 marks

Question aims

To test the candidate's understanding and knowledge of:

- The classification of assets and liabilities by timescale and purpose;
- the key components of the accounting equation;
- how it underpins the whole of the double-entry book-keeping system;
- gross trading profit distinguished from other profits and measures.

Suggested grounds for response include

a) The whole of financial accounting is based on the accounting equation. It shows what the business owns, how these assets have been funded and what it owes, and what of that funding represents the owner's investment in their business.

'Current' and 'Non-current' help define the timescale and purpose of the equation's components, namely assets and liabilities:

- **Assets** – what the business owns:

  These can be *Current* (cash, assets readily convertible into cash, or assets used in the business short-term for trading), that is, Inventory; Trade Receivables; Prepaid Receivables; Bank (in funds); Cash in hand; or,

  they can be *Non-current* (not traded, but held in the business over time for more than one reporting period – accounting year - in order to support the business and generate profits), for example, Property; Land and Buildings; Plant and Equipment; Machinery; Fixtures and Fittings; Motor Vehicles (if not actively traded), etc.

- **Liabilities** – the claims upon the assets – what the business owes:

  These can also be *Current*, for example, Trade Payables, Accrued Payables, Bank Overdrafts, etc., or,

  Non-current, represented by Long-term borrowing such as Loans.

b) i) **Capital** is the investment made by the owner of a firm with the intention of earning a return, contribution or profit which, in itself, may be retained within the business.

Calculation of the amount of capital that Soraya has in her business venture:

Assets	£
Retail Outlet	25,000
Vehicle	12,500
Fixtures and Fittings	3,000
Inventory	20,000
Cash	1,250
	61,750

Liabilities	£
Trade Payables (£20,000-£7,500)	12,500
Loan	35,000
Bank Overdraft	6,500
	54,000

Calculation of **Capital =** £61,750 - £54,000 = £7,750

ii) Final position in a detailed accounting equation

Current Assets	*plus* **Non-current Assets**		**Current Liabilities**	*plus* **Non-current Liabilities**	*equals* **Capital**
£21,250	£40,500	*minus*	£19,000	£35,000	£7,750
20000 1250	25000 12500 3000		12500 6500	35000	7,750
61,750		-	54,000		=7,750

c) Soraya's Gross Profit = Sales Revenue minus Cost of Sales, so:

	£	£
Sales Revenue		16,750
Opening Inventory	0	
add Purchases	20,000	
	20,000	
less Closing Inventory	0	
Less cost of sales:		(20,000)
Gross profit (loss)		(3,250)

Therefore, Soraya's Gross Profit at that moment = Negative £(3,250)

Negative GP figures are normally found very early in a business's life, as is the case here. The Opening Inventory is £0 as there had not been a previous closing inventory, and when Soraya's operation started, none had been bought yet. Because there has not been a reporting period end yet, there has been no stocktake or valuation to give a Closing Inventory figure. Remember also that the £20,000 is a 'cost price', so whilst Sales Revenue is £16,750, it should have taken a much lower value of inventory to generate this revenue at its selling price in a new business.

It is worth noting that Soraya's negative Gross Profit of £(3,250) is not the same as her Cash at this point, which is £1,250 [£(5,250) taking the overdraft into account] and Capital is £7,750, reinforcing the idea that they are 3 different things in practice.

Capital is the amount of money the owner brings to the business. It is a special type of liability as it indicates what the business owes the owner. Cash, on the other hand, is the most liquid of all assets and is used to finance day to day business transactions. If a business does not have sufficient cash flow and cannot pay its bills as and when they fall due, it can become insolvent. Profit is the position a business is in after all expenses have been accounted for. Profit should not be confused with cash. It is possible to have a lot of cash and make losses and equally be profitable without having any cash available.

Total 20 marks

2. a) Describe the various differences between a cash discount and a trade discount. (4 marks)

b) Robin (a sole trader) identified the following account balances as at close of business on 30 November:

Sales Revenue	£44,500
Purchases	£19,900
Bank (in funds)	£18,750
VAT (owed to HM Revenue and Customs)	£1,300
Alfred (a supplier)	£3,575
Harriet (a customer)	£2,600

During the first week of December, the following transactions took place:

December 1	Harriet was invoiced for £1,500 goods + £300 VAT.
December 2	Alfred sent a credit note for £600 including VAT.
December 3	Robin took £1,000 out of the bank to pay a personal debt.
December 4	A cheque for £3,500 was received from Harriet in full settlement of her account. Treat any balance remaining as a discount. [*Note: Ignore VAT; there are no VAT implications*]
December 5	Alfred's account was settled in full by cheque.
December 6	Robin paid £10,000 into the bank from own money intending to buy new inventory.

TASKS for part b)

Write up Robin's accounts for the first week of December as follows:

i) Open ledger accounts as required and correctly record the 'brought forward' balances of the accounts identified by Robin, as at 1 December.

ii) Using the ledger accounts opened in b)i) and opening any others as necessary, correctly record the transactions occurring in December. (14 marks)

c) Explain the dual aspect concept, using any of the December transactions featuring in b)ii) above to illustrate your comments. (2 marks)

Total 20 marks

Question aims

To test the candidate's understanding and knowledge of:

- The difference between a cash discount and a trade discount
- To test the candidate's ability to open the appropriate individual ledger accounts with the correct balances and then post transactions to each using a double-entry system of accounting.

Suggested grounds for response include:

a) A cash discount is an amount a supplier allows the deduction of from the goods or services value of an invoice, if the buyer settles it within a specified time and earlier than the credit terms, so helps support the supplier's incoming cash flow and compensates the buyer for parting with their cash earlier, e.g. 5% discount for payment in full within the next seven days.

The buyer can opt whether to take the offer by paying before the seven days are up or take longer to pay within agreed credit terms and not receive the reduction. Should the buyer take the reduction, a double-entry transaction is required by both parties to account for the discount element and VAT-registered buyers and suppliers must recast their accounting and bookkeeping records to ensure that the appropriate VAT value is paid / reclaimed.

A trade discount is an amount allowed as a reduction to a business's list or catalogue price for goods or services when supplied to other businesses only (so B2B sales only), so helps support a buyer's profit margin and therefore continuity of business with the supplier, e.g. plumbing business buying parts from a plumbers' merchant.

Whilst the reduction to list price is shown on the invoice, the goods or services value is a net value, that is, the discounted value, and the discount does not bring about a bookkeeping double-entry transaction in itself. It is also important to note that VAT, if appropriate, is calculated on the net amount of the invoice, after deducting the trade discount.

b) Accounts necessary and required transactions are:

Account: Bank CB				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			18,750.00
3 Dec	Drawings NL		1,000.00	17,750.00
4 Dec	Harriet SL	3,500.00		21,250.00
5 Dec	Alfred PL		2,975.00	18,275.00
6 Dec	Capital NL	10,000.00		28,275.00

Account: VAT NL				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			(1,300.00)
1 Dec	Harriet SL		300.00	(1,600.00)
2 Dec	Alfred PL		100.00	(1,700.00)

Account: Sales Revenue NL				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			(44,500.00)
1 Dec	Harriet SL		1,500.00	(46,000.00)

Account: Purchases NL				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			19,900.00

Account: Alfred PL				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			(3,575.00)
2 Dec	Purchases Returns NL	600.00		(2,975.00)
5 Dec	Bank CB	2,975.00		0.00

Account: Harriet SL				
Date	Details	Dr	Cr	Balance
1 Dec	Balance b/fwd			2,600.00
1 Dec	Sales Revenue NL	1,800.00		4,400.00
4 Dec	Bank CB		3500.00	900.00
4 Dec	Discount allowed NL		900.00	0.00

Account: Purchase Returns NL				
Date	Details	Dr	Cr	Balance
2 Dec	Alfred PL		500.00	(500.00)

Account: Drawings NL				
Date	Details	Dr	Cr	Balance
3 Dec	Bank CB	1,000.00		1,000.00

Account: Discount Allowed NL				
Date	Details	Dr	Cr	Balance
4 Dec	Harriet SL	900.00		900.00

Account: Capital NL				
Date	Details	Dr	Cr	Balance
6 Dec	Bank CB		10,000.00	(10,000.00)

c) The principle of duality coming from the dual aspect concept requires that each bookkeeping or accounting transaction is recorded by means of two opposing accounting entries (debit and credit) of equal values.

Any of the postings given in b) above except brought forward balances may be used to illustrate the concept in practice. For instance, on the 6th December, the correct double-entry illustrating the concept of duality is Debit Bank CB £10,000 [increasing an asset] / Credit Capital NL £10,000 [increasing capital, the liability to the owner].

Total 20 marks

3. a) Explain what is meant by ‘working capital’, and why it is important for a business. (4 marks)

b) The following data has been extracted from the financial statements of Bucket Shop Ltd for the years mentioned and some key ratio information is also given:

BUCKET SHOP LTD	**2015 £**	**2016 £**
Sales Revenue	215,000	268,000
Gross Profit	160,000	180,000
Operating Profit	90,000	70,000
Cost of Sales	55,000	88,000
Non-Current Assets	30,000	48,000
Opening Inventory	16,000	11,000
Trade Receivables	16,000	21,000
Closing Inventory	11,000	13,000
Bank	7,000	(1,500)
Trade Payables	7,000	5,000
Cash	150	150
Long-term Loan	0	15,000

Profitability:	**2015**	**2016**
Gross Profit Margin	74.4%	67.2%
Operating Profit Margin	**?**	**?**
Return on Capital Employed (ROCE)	157.5%	92.5%
Liquidity:	**2015**	**2016**
Current Ratio	4.9:1	5.3:1
Acid Test Ratio	**?**	**?**
Efficiency:	**2015**	**2016**
Inventory Turnover Rate	**?**	**?**
Sales Return on Assets Employed	3.8 times	4.4 times

TASKS for part b)
Showing your formulae and workings in your responses, and using the company’s financial data and key ratio information given above as necessary:

i) Calculate its Operating Profit Margin for 2015 and 2016 and then comment on the Profitability of the business. (4 marks)

ii) Calculate its Acid Test Ratio for 2015 and 2016 and then comment on the Liquidity of the business. (4 marks)

iii) Calculate its Inventory Turnover Rate for 2015 and 2016 and then comment on the Efficiency of the business. (4 marks)

c) Using your responses to 3a) and 3b) above as a basis, discuss the viability of increasing Bucket Shop Limited's credit limit from £5,000 to £20,000.

(4 marks)

Total 20 marks

Question aims

To test the candidate's ability, understanding and knowledge of:

- The importance of working capital for any business
- Financial ratios and how they can be used to assess the liquidity, profitability and efficiency of any business from a credit management standpoint.

Suggested grounds for response include:

a) Working capital is the short-term net assets of the business made up of inventory, receivables, payables, cash in hand and bank funds.

It is needed by all businesses in order to finance its day-to-day operations and is normally expressed as the excess of current assets over current liabilities.

Sufficient working capital enables a business to:

- hold adequate inventories
- afford a measure of credit to its customers (trade receivables)
- pay its suppliers (trade payables) as and when the invoices are due.

Lack of working capital affects cash flow adversely, affects the organisation's ability to function properly and leads to an increase in the costs of financing e.g. increased overdrafts or loans.

b) i) **Operating Profit Margin 2015 = 41.9%**
Operating Profit Margin 2016 = 26.1%

This has worsened significantly which could be a sign of poor control of overheads shown by the adverse movement in the cost of sales figure and/or increase in the operational costs of the business.

Reference should be made to the fact **Return on Capital Employed** is showing a downward trend. This ratio measures the return on the owner's investment, how well the assets have been managed and whether the investment is worthwhile.

The adverse movement could be caused by the proportionate rise in business expenses causing a fall in the operating profit margin and taking out the long-term loan this year, increasing non-current liabilities and giving rise to finance costs.

ii) **Acid Test 2015 = 3.3:1**
Acid Test 2016 = 3.3:1

With regard to the acid test ratio it can be seen that there has been very little change. However, the general liquidity position has improved as displayed by the current ratio. The business will certainly be able to pay its debts as and when they fall due as it was already in a favourable position.

That said, the acid test ratio (and indeed the current ratio) are arguably too high requiring an investigation of the makeup of both the current assets and the current liabilities as perhaps opportunities to invest are being overlooked.

Also, in 2015, the business had cash in the bank which moved into an overdraft position despite borrowing £15,000, although it appears the loan has been used to purchase additional non-current assets.

iii) **Inventory Turnover Rate 2015 = 89.6 days (using average stock)**
Inventory Turnover Rate 2016 = 49.8 days (using average stock)

The **Inventory Turnover Rate** figure has improved significantly which suggests more efficient use and utilisation of inventory to generate sales and perhaps better utilisation of assets in general.

Since there has been a marked improvement in this measure, the advantages of this (e.g. lower costs of storage, lower working capital required to support inflated inventory levels, etc.) may be highlighted.

Further ratios in this category may be calculated and support observations in suitable commentary such as:

	2015	**2016**
Payables Settlement Period	51.1 days	20.3 days
Receivables Collection Period	27.2 days	28.6 days

The management of trade receivables has deteriorated slightly, but there is an undue emphasis on the payment of suppliers' invoices, suggesting pressure from suppliers to pay earlier. This has more than halved the average trade payables settlement period and suggests a drain on cash resources, evidenced by the 2016 overdraft and the need for a loan to support the new non-current asset acquisition.

Reference might be made to how the organisation has become more efficient in the use of its net assets in generating sales.

c) *[An 'evidence-based' narrative should be offered to this task using the responses given by the examination candidate to question tasks a) and b) and the scenario (but not speculation, or through the introduction of new facts), showing why such an increase in credit limit might be supported, and why it might be rejected, e.g..]*

Given the foregoing, it might be in order to cautiously grant the increased facility because of the business' seemingly good liquidity position and favourable settlement period.

However, a credit manager would also be concerned about the falling profit margins and potential impact upon cash resources which should continue to be monitored. If the trends continued, it might ultimately bring with it more obvious liquidity problems.

Whilst inventory turnover rates show improved management of its assets, at least in terms of inventory, a reduction in ROCE would also cause concern to stakeholders and potential lenders.

These results may not be sufficiently good enough therefore to grant the request in full or in part, depending upon the credit policy of suppliers.

Total 20 marks

4. a) In respect of a company's annual financial statements, describe why the Chairman's Report might not be as reliable as the Director's Report. (4 marks)

b) The following balances relate to the accounts of Exwyzed Limited as at 31 December 2016:

Exwyzed Limited	**£**
Ordinary shares (fully paid £1 shares)	350,000
Land and buildings (book carrying value)	310,000
Trade Receivables	194,000
Retained earnings as at 01/01/2016	158,000
Operating profit for the year ended 31/12/2016	140,000
Fixtures and fittings (book carrying value)	125,000
Inventory as at 31/12/2016	120,000
Share premium	109,000
Computer equipment (book carrying value)	100,000
5% £1 Preference shares	90,000
Bank (in funds)	86,500
Trade Payables	80,000
Prepaid Receivables	8,900
Accrued Payables	8,000

You are also made aware of the following:

- Corporation Tax is assessed at £60,500
- Trade receivables allowance for doubtful debt was set at £9,400
- The Preference share dividend will be paid after the year end
- The Ordinary share dividend of 10% was declared before the year end
- There are no finance costs affecting the financial statement.

TASKS for part b)
Using the balances and data given above:

i) Compile Exwyzed Limited's Retained Earnings Reconciliation as at 31 December 2016, starting with profit before tax. (4 marks)

ii) Then draw up Exwyzed Limited's Statement of Financial Position as at 31 December 2016. (10 marks)

c) Briefly explain the significance of a qualified Auditor's Report from a credit management perspective? (2 marks)

Total 20 marks

Question aims

To test the candidate's ability, understanding and knowledge of:

- Content of the Director's and Chairman's Reports and assess their significance from a credit management viewpoint
- how to construct a retained earnings reconciliation and a statement of financial position incorporating various adjustments
- Limitation of using a qualified Auditor's Report for credit management purposes.

Suggested grounds for response include:

a) The **Chairman's Report** is their overview of the main developments and activities of the company which took place during the last financial year and is often seen as a 'public relations' exercise with organisational stakeholders.

Not constrained by restrictions on its content or overview by auditors, whilst it must not be deceitful or misleading, it tends to be 'bullish' in its nature, concentrating on the positive aspects of last year's trading and activities, even if it was a disappointing year.

The content of the **Director's Report** however is defined in the Companies Acts and is subject to vigorous examination from the auditors to assure it also presents a true and fair view of the company's activities and corresponds with the prepared financial reports and statements.

The Director's Report is an objective review of the company's performance in the last trading year and the intelligence gleaned from it therefore can be said to be more reliable from a credit management standpoint.

b) i)

Retained Earnings Reconciliation	£
Profit for the Year (W1)	79,500
Retained Earnings 01/01/2016	158,000
Preference Share Dividend (W2)	(4,500)
Ordinary Share Dividend (W3)	(35,000)
Retained Earnings 31/12/2016	198,000

ii)

Exwyzed Ltd Statement of Financial Position as at 31 December 2016

	£	£	£
Non-current assets			N.C.V.
Land and Buildings			310,000
Fixtures and Fittings			125,000
Computer Equipment			100,000
			535,000
Current assets			
Inventory	120,000		
Trade Receivables	184,600		

less Allowance for Doubtful Debt [£194,000 - £9,400]			
Prepaid Receivables	8,900		
Bank	86,500	400,000	
Current liabilities			
Trade Payables	80,000		
Accrued Payables	8,000		
Corporation Tax	60,500		
Dividends	39,500	188,000	
Net Current Assets			212,000
Net Assets			747,000
Equity and Reserves			
Ordinary Shares £1 paid			350,000
5% Preference Shares £1			90,000
Share Premium			109,000
Retained Earnings			198,000
			747,000

Workings

(W1) Profit for the Year calculation	£
Profit before tax	140,000
(= Operating Profit as no finance costs)	
Taxation	60,500
Profit for the year to 31/12/2016	79,500

(W2) Preference Share Dividend	£
90,000 x 5% =	4,500

(W3) Ordinary Share Dividend	£
350,000 x 10% =	35,000

c) A qualified **Auditor's Report** indicates that some of the information contained in the financial statements give them cause for concern. Perhaps the statements and required reports do not reflect a true and fair view of the company's activities, or accounting concepts and conventions have not been used in an acceptable way, or sufficient information has not been made available to the auditors to allow a more positive opinion to be expressed.

A credit manager would have to consider this adversely in granting or extending credit terms to a customer.

Total 20 marks

5. a) Explain the purpose of management accounting and show how it differs from financial accounting. (4 marks)

b) Milo is expanding his packing/warehouse facility, but his biggest supplier is asking about cash flow and wants a 3-month cash budget for January to March 2017. Milo has now come up with this table and the information that follows.

2016/17	Sales Revenue	minus Purchases	minus Rent	minus Overheads	= Month Total
November	20,000	25,000	4,000	18,500	(27,500)
December	25,000	12,000	4,000	18,500	(9,500)
January	30,000	14,000	4,000	18,500	(6,500)
February	35,000	20,000	4,000	18,500	(7,500)
March	45,000	22,000	6,000	20,500	(3,500)
April	45,000	30,000	6,000	20,500	3,500

- 50% of sales are paid for at the time of sale. The remainder (i.e. sales on credit) will be paid in the following month.
- Rent is paid in the month it is due.
- Overheads are paid in the month after they were incurred and the figure given each month includes £3,000 business rates paid monthly by direct debit and £500 depreciation of non-current assets.
- Trade payables give Milo one month's credit.
- Milo intends to buy a van in February for no more than £12,000 and, to get the best deal, pay in full at the time. He also intends to spend £5,000 at a trade fair at the end of March where the custom is to pay the invoice 14 days later.
- In December, Milo thinks the end-of-month bank balance will be £16,000 overdrawn and has had to promise the bank he will put a further £40,000 into the business bank account in February and not go overdrawn again without the bank's approval.

TASK for part b)
Using the data given above, prepare Milo's cash budget for the three month period January, February and March 2017. (12 marks)

c) Advise Milo on the results of the cash budget you have produced in b) above and the immediate outlook for him as a consequence. (4 marks)

Total 20 marks

Question aims

To test the candidate's ability to and understanding and knowledge of the:

- Importance of budgeting for planning and control purposes
- Construct a simple cash budget to monitor the timing of revenues and expenses and identifying surpluses and shortages of cash

Suggested grounds for response

a) Management accounting provides information for use within the organisation and involves costing and budgeting across the whole of the business using methods agreed by the business itself.

The information collated in management accounting is used exclusively for planning, control, forecasting and decision making within the organisation, is rarely seen by external stakeholders and there are no statutory requirements for their content, form or presentation.

Financial accounting collates the bookkeeping activities of the organisation and presents them in financial statements which are regulated by law and normally subject to scrutiny in external audit.

Financial accounting statements are a legal requirement for all incorporated businesses and are prepared in formats approved by Company law and accounting convention. Once published, they are used by a plethora of outside agencies and stakeholders.

b) **Milo's Warehouse – Cash Budget for January to March 2017**

	Nov *£*	*Dec* *£*	**January 2017 £**	**February 2017 £**	**March 2017 £**	*April* *£*
Receipts						
Owner's Capital	*0*	*0*	**0**	**40,000**	**0**	*0*
Cash Sales	*10,000*	*12,500*	**15,000**	**17,500**	**22,500**	*22,500*
Credit Sales	*x*	*10,000*	**12,500**	**15,000**	**17,500**	*22,500*
Total Receipts	*x*	*22,500*	**27,500**	**72,500**	**40,000**	*45,000*

	Nov *£*	*Dec* *£*	**January 2017 £**	**February 2017 £**	**March 2017 £**	*April* *£*
Payments						
Payables	*x*	*25,000*	**12,000**	**14,000**	**20,000**	*22,000*
Rent	*4,000*	*4,000*	**4,000**	**4,000**	**6,000**	*6,000*
Van	*0*	*0*	**0**	**12,000**	**0**	*0*
Trade Show	*0*	*0*	**0**	**0**	**0**	*5,000*
Overheads	*3,000*	*18,000*	**18,000**	**18,000**	**18,000**	*20,000*
Total Payments	*x*	*47,000*	**34,000**	**48,000**	**44,000**	*53,000*
Net cash flow *(TR-TP)*	*x*	*(24,500)*	(6,500)	24,500	(4,000)	*(8,000)*
Balance b/f	*x*	*8,500*	**(16,000)**	**(22,500)**	**2,000**	*(2,000)*
Balance c/f	*8,500*	*(16,000)*	**(22,500)**	**2,000**	**(2,000)**	*(10,000)*

c) If Milo's view that there will be an end of month £16,000 overdrawn cash balance is true, his 'non-overdraft' promise following the budgeted period is still too optimistic even given the promised £40,000 cash boost.

This is certainly compounded by the proposed purchase of a non-current asset at a cash cost of £12,000, although this may represent investment in his business to improve its medium-term prospects.

However, Milo might be advised to secure alternative financing arrangements for this [such as a lease or hire purchase] that alleviates his business's acute need for cash and allows better cash flow planning as well as a 'softer' outlook.

His budgeted cash flow shows a worse situation that he anticipated and as it stands, other action is still required to avoid a continuing overdraft and an increasingly deteriorating relationship with the bank.

Total 20 marks

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