

2. Study the information below and then answer the questions that follow.

### AJ Cabs looks to expand

Brothers, Andy and John Webb, have been running a taxi business in a small, but rapidly expanding, seaside town for the last two years. They drive two five-seater vehicles, and have experienced steady growth in trade, especially in the summer holiday season. John's wife had operated the phone from their home in order to help them get established but she plans to return to her career in nursing in March, now that their young son is old enough to go to nursery. This means that they will need to employ part-time receptionists and find a small office/waiting room as near to the town centre as possible.

Andy wants to expand the business and is keen to purchase a 12-seater minibus to cater for groups of people who wish to go to events in surrounding towns, as well as the increasing numbers of stag and hen parties visiting the town. None of their competitors has such a vehicle as yet and Andy is keen to service this gap in the market. Andy is sure he can convince their bank manager to lend them the £22 000 required to purchase the minibus, given that their current loan is due to be fully repaid in March.

John had already drawn up a cash flow forecast prior to Andy's proposal and has asked his brother to look at it before they make any kind of decision in relation to the expansion of the business.

Andy believed that if they bought and started to operate the minibus at the beginning of June, they would increase their revenue by 20%. He also estimated that the new loan would come to £1 200 a month and maintenance and fuel costs would rise about 10%.

#### AJ Cabs Cash Flow Forecast: January to June 2009

	JAN	FEB	MARCH	APRIL	MAY	JUNE
	£	£	£	£	£	£
Sales Revenue	4 500	5 000	6 000	8 000	9 000	10 000
<b>Total Receipts</b>	4 500	5 000	6 000	8 000	9 000	10 000
<i>Expenses:</i>						
Receptionists' Wages	0	0	1 300	1 300	1 300	1 300
Rent	0	0	400	400	400	400
Vehicle Maintenance	200	200	200	200	200	200
Fuel	800	850	900	1 300	1 500	1 800
Loan Repayments	1 000	1 000	1 000	0	0	0
Tax and Insurance	150	150	150	150	150	150
Drawings	3 500	3 500	3 500	3 500	3 500	3 500
<b>Total Payments</b>	5 650	5 700	7 450	6 850	7 050	7 350
<b>Net Cash Flow</b>	(i)	(700)	(1 450)	1 150	1 950	2 650
Opening Balance	2 000	850	150	(1 300)	(150)	1 800
Closing Balance	850	150	(1 300)	(150)	1 800	(ii)

- (a) Using the information provided in the cash flow forecast of AJ Cabs, calculate the value of the:
- (i) net cash flow in January; [1]
  - (ii) closing balance in June. [1]
- (Write your answers in the answer book.)
- (b) With reference to the information provided, distinguish between fixed and variable costs. [4]
- (c) Explain **two** advantages to AJ Cabs of preparing a cash flow forecast. [6]
- (d) Discuss whether or not Andy and John should proceed with the purchase of the minibus. [8]