

Ivelston Furniture: cash flow and break-even

Learner workbook | Pearson BTEC Level 3 National Extended Certificate in Business, Unit 3: Personal and Business Finance | Original TBS three-lesson case for classroom practice

Over three lessons you will work with the finances of a small furniture workshop. Lesson 1: build a six-month cash flow forecast and find out when the bank balance goes below zero. Lesson 2: work out the break-even point, draw the break-even chart and find the margin of safety. Lesson 3: revise the forecast and the break-even point after a change, weigh up the benefits and limitations of both tools and write a recommendation.

Ivelston Furniture, the town of Ivelston and every person, figure and comment in this case are fictional. Costs are simplified for teaching. You need a calculator. The formulas are not given in the Unit 3 external assessment (specification, printed page 41), so you will learn each one and write it from memory in Lesson 3. This is original classroom practice; it is not a Pearson assessment task and is not endorsed by Pearson.

The business

Ivelston Furniture is a small workshop on Sawpit Lane in Ivelston, a market town in the English Midlands. Rhona Ashby, a trained cabinet maker, owns it as a sole trader: she is the only owner and is personally responsible for the business's debts. She employs one full-time cabinet maker, Pavel Orme. Together they make one product: a made-to-order solid oak dining table. The workshop can make up to 20 tables a month.

Half of the tables go to private customers, who pay by card when the table is delivered. The other half go to trade customers such as interior designers and cafes. They are sent an invoice and pay one month after delivery. Rhona buys oak from one timber supplier, who gives her one month to pay. Ignore Rhona's own living costs: they are not part of the figures in this case.

Winter is slow and spring is busy, because people choose tables for weddings and new homes. Rhona is worried: January to March look quiet and a VAT payment is due in February. She wants to know whether the workshop will have enough cash, and how many tables it must sell to cover its costs.

Free sample

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Contents of the full pack

Lesson 1: Will Ivelston have the cash?

Lesson 2: How many tables to break even?

Lesson 3: What should Rhona change?

Learner workbook and teacher guide, as PDF and as editable Word files.

The teacher guide has lesson plans, full worked answers and indicative guidance.

This sample is the cover and the first two pages of Lesson 1 of the learner workbook. It contains no answers. The pages that follow are exactly as in the full pack.

Lesson 1: Will Ivelston have the cash?

Today you will build a six-month cash flow forecast for Ivelston Furniture, find out when the bank balance goes below zero and decide how Rhona could fix it.

Starter: inflow, outflow or neither?

In the forecast, an inflow is money coming into the bank account in that month and an outflow is money going out in that month. For each item write Inflow, Outflow or Neither this month.

Item	Inflow, outflow or neither?
1. A private customer pays £600 by card when a table is delivered.	
2. A trade customer is sent an invoice for £1,200 for two tables delivered this month.	
3. A trade customer pays last month's invoice of £1,200.	
4. Ivelston pays Pavel's wages.	
5. Ivelston buys timber this month and has one month to pay.	
6. Ivelston pays its VAT to the tax office.	
7. Rhona pays £1,500 of her own savings into the business bank account.	
8. Ivelston buys a new saw bench for £900 and pays for it at once.	

Task 1: January (individual)

Givens: half of the tables are paid for on delivery (cash sales) and half are invoiced and paid one month later (credit sales). Timber (£210 a table) is paid one month after the table is sold. Finish and hardware (£35) and delivery (£45), £80 a table in all, are paid in the month of sale. Amounts exclude VAT; VAT is only the two payments given.

January: 9 tables sold. December: 12 tables sold (actual). Bank balance on 1 January: £2,500. January costs that do not depend on the tables: electricity bill £180, rent £1,300, rates £260 and wages £1,650. No VAT is due in January. Complete the January column. The teacher will check the closing balance with the class before Task 2.

Line	Working	£
Opening balance, 1 January		2,500
a. Cash sales: half of January's 9 tables at £600		
b. Credit sales received: half of December's 12 tables at £600		
c. Total inflows		
d. Timber paid: December's 12 tables at £210		
e. Cash purchases: January's 9 tables at £80		
f. Electricity, rent, rates and wages		
g. Total outflows		
h. Net cash flow (total inflows minus total outflows)		
i. Closing balance (opening balance plus net cash flow)		

Working space:
