

Hana Taylor is the owner of a beekeeping business in the North Island called Honey Drops. A cash flow statement has been prepared for part of one year, going into the next - September, October, November, December, January, February, March. Hana decided to purchase more beehives to expand her business. In order to do this, she would need to get a loan from the bank of \$150,000. Her loan gets approved in October and she pays for the beehives in January. Hana has the costs of provisional tax, drawings, wages, advertising, honey expenses and payment to suppliers that she has to pay monthly except for the provisional tax which is paid only in October and February. Her income is from sales and from January she gains cash from customers. These receipts and expenses leave her final closing bank balance at \$42,770 - a closing bank balance that shows she is financially viable.

Unfortunately, in January there is **a loss in her income** from 20 hives being infected with American Foulbrood disease, causing them to have to be destroyed so no other hives become infected. Due to this event, \$25,000 of **cash from customers** is lost in January, February and March which is the full amount Hana was gaining in cash from customers. This means she no longer gains income from cash from customers, only sales, decreasing her total amount of income by a lot and causing her closing bank balance to enter the negatives for the months of January, February and March. Even though she has a pre-arranged overdraft facility of \$5,000, if the overdraft is over \$5,000 then Hana has to pay a fee of \$250 for every month she is over. With her closing bank balance for January is -\$19,740, February is -\$18,555, and March is -\$32,730, she has to pay the \$250 fee for all three of those months, increasing her costs and putting her even more overdraft with her new closing bank balances **(closing bank balances with fee seen in sheet 2)**.

In order to become financially viable again after the loss, Hana could **cut her drawings down to \$5,000 a month instead of \$9,000 a month, \$4,000 for March** where the income is particularly low. As well as **cutting down the drawings taken out, she could cut advertising costs of \$500 down to \$450 in September, October and November and during December, January, February and March when the costs increase to \$1,500, it could just be raised to \$750**. Included in these cost decreases, **the cost of the beehive could be spread over 3 months - January, February and March - instead of paid all at once in January**. With these changes, her new bank balance for January is \$101,910, February is \$58,815 and March is \$170, making her financially viable again. These changes can still provide her the things she needs to run the business but allow for her to be financially viable. **However, spreading out the cost of the beehive may be difficult because she would need to find a supplier that would allow for her to have after pay with the beehives. This may mean she will have to find a new supplier** which could be difficult or even cause an increase in the cost of the beehives depending on how much she will have to pay for the beehives in total, how much in after pay, how often the payments will have to be made etc this could prove to be a disadvantage if the cost increases or an advantage if she is able to pay the same amount or less just over a couple months. In my cashflow, I have assumed that she is able to still pay the \$150,000 overall and \$50,000 over January, February and March which would be an advantage. Another disadvantage is that she is getting less personal drawings which could lead to her personally not being financially viable. She is also cutting down advertising which could lead to less business since less people will hear. However, these changes are an advantage just considering my cash flow statement and how it cuts down the costs, not affecting the income.