

Marginal Cash Analysis	1999	2000
Revenue	100.00	100.00
COGS	71.11	70.00
Gross Profit	28.89	30.00
Acc Receivable	13.70	19.18
Inventory	28.84	29.53
Acc Payable	13.62	11.51
Working Capital	28.92	37.20
Marginal Cash Flow	(.03)	(7.20)
Overheads	20.76	19.29
Net Variable Cash Flow	(20.79)	(26.49)

Marginal Cash Analysis shows what the cash requirements would be, if the business were to generate \$1 of additional revenue. The Marginal Analysis assumes that there will be no change in the relationships e.g. Gross Profit % or Overheads %.

For \$1 of Revenue

The business has generated 30.00 cents of Gross Profit and invested 37.20 cents in Working Capital.

This has caused a marginal cash outflow of -7.20 cents for each additional \$1 of Revenue. The business must ensure that:

1. The investment in Working Capital is minimised by reducing Accounts Receivables, reducing Inventory or increasing Accounts Payable.
2. The Gross Margin is increased by increasing prices or reducing cost of Revenue.

In addition to the marginal cash outflow of -7.20 cents, Overheads are currently 19.29 cents for each \$1 of Revenue. Therefore, if the additional \$1 of Revenue will require the same rate of Overheads, the business will have a Net Variable Cash Flow of -26.49 cents.

The conclusion is if the business wishes to increase Revenue and the relationships are not going to change, funding will have to be attained in the form of debt or equity.