**Accounting and reporting on a cash flow basis
Question 1 – Jane Parker
*(i) Cash budget (£000)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Jan** 150.00  | **Feb**  | **Mar**  | **Apr** 82.50  | **May**  | **June**  | **Total**232.50135.00 | Initial capital Customers  |
| 60.00  | 75.00  |  |  |  |  |  |  |

**Total receipts 150.00 82.50 60.00 75.00 367.50**

|  |  |  |  |
| --- | --- | --- | --- |
| Machinery Motor vehicles Premises Drawings Suppliers Rates Wages General expenses Insurance  | 30.00 24.00 75.00 1.20  | 30.0024.0075.007.20258.001.2013.503.752.10 | 1.20 30.00 1.20 2.25 0.75 –  |
| 1.20 48.00  | 1.20 60.00  | 1.20 60.00  | 1.20 60.00  |
| 2.25  | 2.25 0.75 –  | 2.25 0.75 –  | 2.25 0.75 –  | 2.25 0.75 2.10  |
| –  |  |  |  |  |

**Total payments 132.45 35.40 52.20 64.20 64.20 66.30 414.75**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Net cash flow Balance b/f  | 17.55 –  | (35.40) 17.55  | (52.20) (17.85)  | 18.30 (70.05)  | (4.20) (51.75)  | 8.70(55.95) |

**Balance c/f 17.55 (17.85) (70.05) (51.75) (55.95) (47.25) (47.25)
*(ii) Statement of cash flows (£000)
Realised operating cash flows for the period ended 30 June 20X1***

|  |  |
| --- | --- |
| Receipts from customers Payments:Suppliers Rates Wages General expenses Insurance  | **135.00** |
| 258.001.2013.503.752.10**278.55(143.55)** |  |

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***For information only
Statement of financial position as at 30 June 20X1*£000**Capital – introduced 232.50
– withdrawn (7.20)
Net operating cash flows: Realised (143.55)
Unrealised (7.80)
73.95
Premises (NRV) 75.00
Vehicles (NRV) 19.20
Machinery (NRV) 27.00
Net cash balance (47.25)
73.95
***(iii) Further information regarding Jane Parker***Nature of business linked to Parker’s business background, technical ability, special skills,
know-how, existing/terminated business involvement, contacts, associates and related
parties.
Type of business unit to be used, and rationale for its selection.
Sources of long- and short-term capital.
Products’ life cycle and cash flow projections over product life cycle.
Initial investment in fixed assets and their terminal value at the end of the life cycle.
Parker’s attitude to risk, and how this affects the choice of discount rate and payback period.
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**Question 2 – Mr Norman
*(a) Purchases budget (£000)***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **p**  | **Jan** 15.00 3.00 12.00  | **Feb** 20.00 4.00 16.00  | **Mar** 35.00 7.00 28.00  | **Apr** 40.00 8.00 32.00  | **May** 40.00 8.00 32.00  | **June**45.009.0036.00 |
| Sales  |  |  |  |  |  |  |
| Gross profit Purchases  |  |  |  |  |  |  |

**Payments 12.00 16.00 28.00 32.00 32.00
Notes:**This is a start-up situation.
Purchases equal projected sales less a gross margin on sales at 20%.
Goods are bought in the month of sale; assume stocks remain constant.
***(b) Statement of cash flows (£000)***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Jan** 50.00 7.50 –  | **Feb**  | **Mar**  | **Apr**  | **May**  | **June**  | **Total**50.0097.5075.00 | Initial capital Cash sales Credit sales  |
| 10.00 7.50  | 17.50 10.00  | 20.00 17.50  | 20.00 20.00  | 22.50 20.00  |  |  |  |

**57.50 17.50 27.50 37.50 40.00 42.50 222.50**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Premises Rent and rates Suppliers Commission Wages Insurance  | 80.00 2.20  | 80.0013.20120.003.003.603.50**223.30** | 2.20 12.00 0.30 0.60 – **15.10** 2.40 (28.80)  | 2.20 16.00 0.40 0.60 – **19.20** 8.30 (26.40)  | 2.20 28.00 0.70 0.60 – **31.50** 6.00 (18.10)  | 2.20 32.00 0.80 0.60 – **35.60** 4.40 (12.10)  | 2.20 32.00 0.80 0.60 – **35.60** 6.90(7.70) |
| 0.60 3.50 **86.30** (28.80) –  |  |  |  |  |  |  |  |
| Net cash flow Balance b/f  |  |  |  |  |  |  |  |

**Balance c/f (28.80) (26.40) (18.10) (12.10) (7.70) (0.80) (0.80)**
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***(c) Statements of operating cash flows and financial position
Realised operating cash flows for the period ended 30 June 20X8*£000**

|  |  |
| --- | --- |
| Receipts from customers Payments:Suppliers  | 172.50 |
| 120.00 |  |
| Rates  | 13.20 |
| Wages  | 3.60 |
| Commission  | 3.00 |
| Insurance  | 3.50**143.3029.20** |

**Notes:**The cash flow statement with summary attached is effectively a 6-month cash budget
showing the cash received, cash paid each month and the resulting month-end balances.
It is necessary to separate sales and purchase transactions into cash and on-credit, and to
identify clearly the month of receipt and payment.
Commission is paid in the month after the sale is made, and all other cash flows are clearly
indicated and allocated to specific months.
Note that the format of the cash flow statement brings out key figures – for management
decision and control. For example:
month-end balances – assist in the control of liquidity;
cash deficiencies – identify how much must be financed;
early warning – allows management to approach appropriate sources;
cash surpluses – identify amounts to be invested on the best terms.
***Statement of financial position as at 30 June 20X8*£000**

|  |  |
| --- | --- |
| Capital – introduction Net operating cash flows: **Realised** : **Unrealised**  | 50.0029.20(4.00)**75.20**76.00(0.80)**75.20** |
| Premises **(NRV)** Net cash balance  |  |

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**Notes:**This statement shows net assets of £75,200.
Make up: premises £76,000 less the negative cash balance £800.
The negative cash balance indicates the need for overdraft arrangements.
The statement is based on cash flow concept:
It ignores accrual-based figures (£36,900 less £25,250).
Accruals are not regarded as real assets and liabilities.
Critics of the cash flow concept would maintain that its utility has therefore been
seriously diminished.
***(d) Letter to the bank requesting an overdraft facility***The maximum overdraft facility of £28,800:
will be required at the end of January;
will be eliminated by July.
Overdraft will fall progressively as per the cash budget.
It might be practical to request a limit of £30,000:
for the full 6-month period;
reducing it to £15,000 thereafter to allow for contingencies. The facility is only to be
called on as required.
Refer to the cash budget to support the request
confirm that it is based on the most likely scenario;
agree to a repayment schedule.
Specify that collateral security is available in the form of premises if it should be required.
If not an existing customer:
give outline details of business background;
explain future plans;
market