**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** 232.50 135.00 | 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 | 30.00 24.00 75.00 7.20 258.00 1.20 13.50 3.75 2.10 | 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** |
| 258.00 1.20 13.50 3.75 2.10 **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– withdrawn (7.20)  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** 45.00 9.00 36.00 |
| 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** 50.00 97.50 75.00 | 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 | 80.00 13.20 120.00 3.00 3.60 3.50 **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 **143.30 29.20** |

**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** | 50.00 29.20 (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