2.5 Cash flow statements

Name: _____ Class: _____ Date: _____ **Total: 22 marks**

KEY WORDS cash flow statement • operating

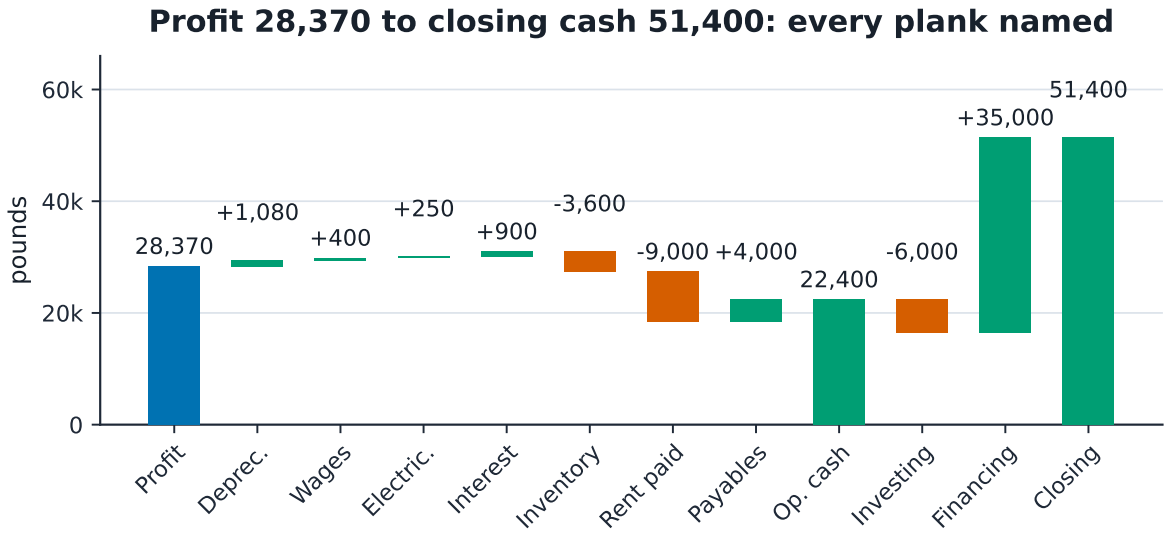
Objective

Classify flows into operating, investing and financing; reconcile profit to operating cash; explain why profit and cash diverge.

1 Key knowledge and worked examples

■ Three classes and a bridge

The **cash flow statement** classifies movements as **operating**, **investing** or **financing**. The indirect bridge adds back depreciation and accruals, then moves working capital: profit becomes operating cash with every divergence engine named.



Profit to cash is a bridge with named planks

■ Worked example. Nimbus year 1

Profit 28,370 + depreciation 1,080 + accruals 1,550 − inventory 3,600 − prepaid rent 9,000 + payables 4,000 = operating 22,400; investing −6,000; financing +35,000; net 51,400 = the balance sheet's cash ✓.

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2 Practice

2.1 Classify: (a) £5,000 loan repayment; (b) £900 interest on it; (c) the oven purchase; (d) a £20,000 dividend; (e) flour purchased on credit. [5]

2.2 From Nimbus's bridge, what single plank moves the most cash, and which engine (timing, growth, capital structure) does it belong to? [3]

2.3 Recompute operating cash if Nimbus had held the same year with NO rent prepayment (rent paid monthly, in year). Which planks change? [3]

3 Exam-style questions

3.1 The café of sheet 2.4 (profit 15,145; depreciation 2,125; accruals wages 800, electricity 180, interest 1,250; receivables 6,000; inventory 2,600; prepayment 8,000; equipment bought 9,000; capital 20,000; loan 25,000). Build the full cash flow statement and show it lands on the balance sheet's cash of 38,900. [8]

3.2 Profit is 15,145 and operating cash is 2,900. Name the engine driving most of the divergence and state one management action that would narrow it. [3]