Exercise walk-through

2.5
Cash flow statements

University Business

Double entry and ledgers: debits left, credits right

The week posted: debits left, credits right

Cash

20,000	6,000
15,000	
3,000	
38,000	**6,000**

Equipment

6,000	
6,000	**0**

Inventory

4,000	1,200
4,000	**1,200**

Cost of sales

1,200	
1,200	**0**

Loan

	15,000
0	**15,000**

Payables

	4,000
0	**4,000**

Share capital

	20,000
0	**20,000**

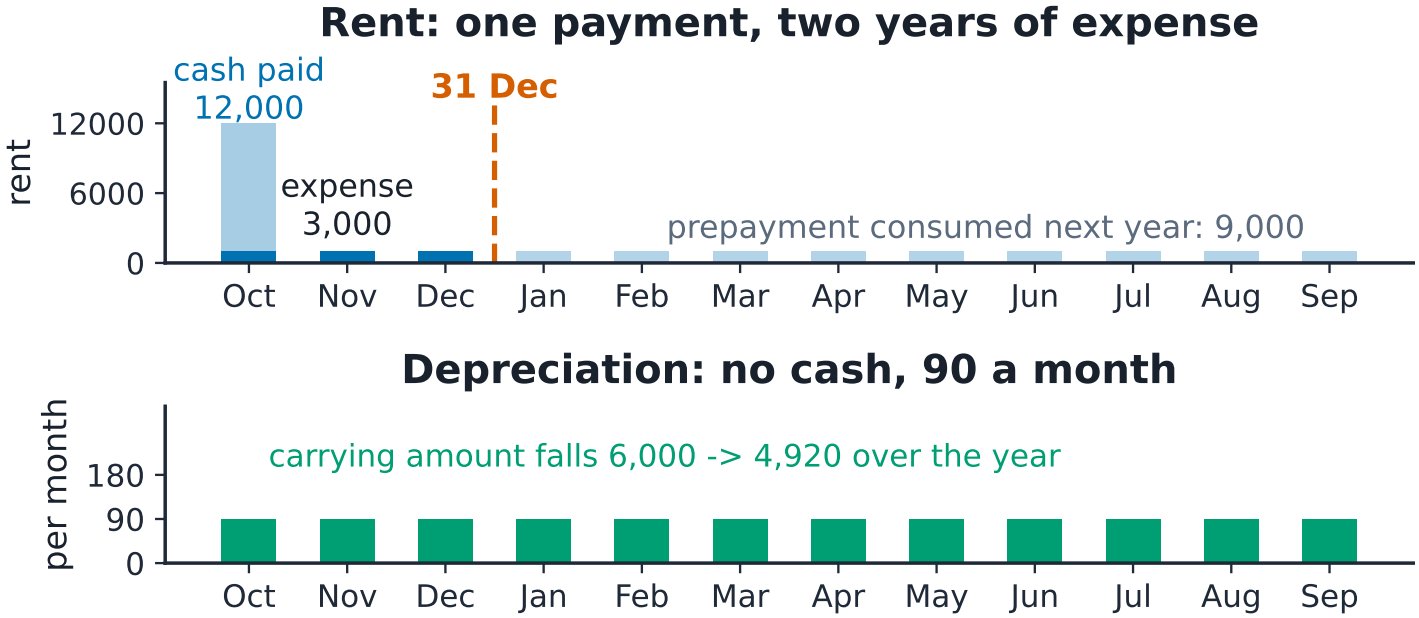
Revenue

	3,000
0	**3,000**

Trial balance: Dr 32,000 + 6,000 + 2,800 + 1,200 = 42,000
= Cr 15,000 + 4,000 + 20,000 + 3,000 = 42,000

The week posted to six T-accounts; the **trial balance** ties at 42,000.

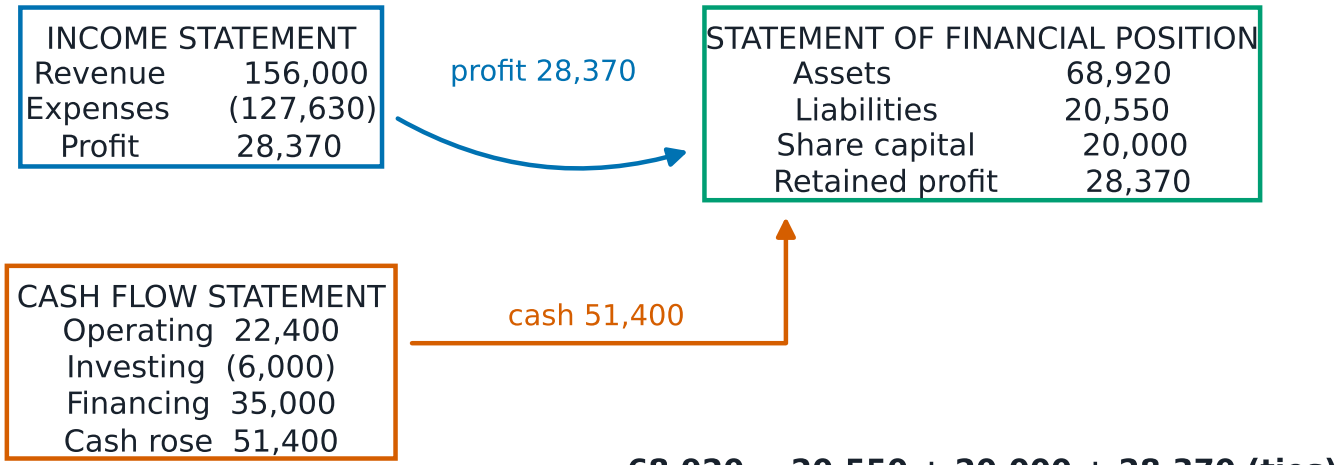
Accruals and adjustments: two timetables



Rent: cash in October, **expense** spread; **depreciation**: expense, no cash.

Financial statements: one profit, one cash

One profit, one cash: the statements close against each other



68,920 = 20,550 + 20,000 + 28,370 (ties)

Profit flows to equity; closing cash lands on the balance sheet.

Exercises 2.1–2.2

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]

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2.1

- (a) Financing. (b) Operating. (c) Investing. (d) Financing. (e) Operating (and no cash moves until paid).

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]

2.2

- The prepaid rent: −9,000, the largest plank.
- Timing engine: cash moved a year ahead of the expense.
- (Growth owns inventory; capital structure owns the 35,000.)

Exercise 2.3

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]

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- Operating cash rises by 9,000 to 31,400.
- The prepayment plank disappears; every other plank is unchanged.
- Cash at the year end becomes 60,400 – same profit, different cash: timing, not performance.

Exercise 3.1

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]

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3.1

- Operating: $15{,}145 + 2{,}125 + 800 + 180 + 1{,}250 - 6{,}000 - 2{,}600 - 8{,}000 = 2{,}900$.
- Investing: equipment $-9{,}000$.
- Financing: capital $+20{,}000$, loan $+25{,}000$.
- Net: $2{,}900 - 9{,}000 + 45{,}000 = 38{,}900$.
- Equals the balance sheet's cash ✓ – the statements close against each other.

Exercise 3.2

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]

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3.2

- Timing: the 8,000 rent prepayment and 6,000 receivables against the 2,230 of accruals – working capital absorbed 14,000 of cash that profit already counts as earned or matched.
- Narrowing action: invoice café customers on delivery with the 24-day term enforced (receivables 6,000 → near zero releases up to 6,000).
- Or negotiate monthly rent – either act is a timing fix, not a performance one.