Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

Each answer shows the steps, then the **result**.

2.1

operating: (e)

investing: (a), (d)

financing: (b), (c), (f)

2.2

inventory −2,000; receivables +1,500

payables +800

total +£**300**

2.3

40,000 + 6,000 − 2,000 + 1,500 + 800

−7,500

= £**38**,**800**

2.4

net change 38,800 − 25,000 − 10,000 = £3,800

closing cash 12,000 + 3,800 = £**15**,**800**

3.1

(a) 35,800 + 4,500 −2,000 − 1,800 + 1,100 + 300 = £**37**,**900**

(b) 37,900 − 2,400 − 6,900 = £**28**,**600**

(c) investing −£12,000; financing −5,000 − 18,000 = −£23,000; change 28,600 − 12,000 − 23,000 = −£**6**,**400**

(d) 20,650 − 6,400 = £**14**,**250**, the cash on the statement of financial position ✓

3.2

4–5: profit is not cash: dividends (18,000), the loan repayment (5,000) and new equipment (12,000) used cash but are not expenses (K)(App); working capital tied up 2,000 + 1,800 − 1,100 − 300 = £2,400 (An); depreciation 4,500 was an expense with no cash (An); summary: the business generated cash from trading, but spent more than that on investment and payments to lenders and owners (Ev). **2–3**: some items explained. **1**: a relevant point.

3.3

(a) 14,250 + 30,000 − 30,000 − 5,000 − 18,000 = −£**8**,**750**: the company would run out of cash

(b) cut the dividend to £9,000: closing cash +£250; or lease the ovens (or borrow for them), spreading the £30,000: e.g. leasing at £6,000 a year gives closing cash +£15,250

(c) a reasoned choice, e.g. lease the ovens and keep a smaller dividend, because the ovens earn over many years and the cash buffer protects the loan repayment

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