

Unit 28 Cash flow statement, exercises p.61

28.1 Write a word or a phrase that matches each definition below.

1. _____ a reduction in the value of an asset over time, due in particular to wear and tear
2. _____ to offer for sale financial products such as shares or bonds
3. _____ money owed to a company by its debtors
4. _____ taken away from a total amount; subtracted
5. _____ not yet paid
6. _____ money which is used to start a business or produce more wealth
7. _____ money that a company owes to its creditors and suppliers
8. _____ goods available for sale and raw materials used to produce goods available for sale
9. _____ the cash left over after a company pays for its operating expenses and capital expenditures

28.2 Below you will see a simplified CASH FLOW FORECAST for a new business. Note that A CASH FLOW FORECAST looks forward, unlike the CASH FLOW STATEMENT, which is produced at the end of a financial year. Study the first two columns, then add the figures from the box in the correct place in the third column.

	940	9,560	10,500	26,960	27,900
<i>Cash flow operations</i>					
	OPEN		JAN		FEB
Opening balance			30,000		
<u>Income</u>					
Sales			9,000		10,500
Capital in	30,000				
Total income	30,000		9,000		
<u>Finances</u>					
Loan repayments			200		200
Interest paid			40		40
<u>Direct costs</u>					
Inventory			6,500		4,000
Labour			1,800		1,800
<u>Expenses</u>					
Salaries			2,400		2,400
Office rent			400		400
Web services					400
Office supplies			200		80
Utilities					240
Insurance			500		
Total outgoings			12,040		
Net cash flow	30,000		(3,040)		
Ending balance	30,000		26,960		

28.3. Refer to the cash flow forecast from the previous exercise and mark these statements TRUE (T) or FALSE (F).

1. TRUE FALSE Most of the capital to start this business probably came from the bank, not the personal funds of the business owner. (Clue: look at the size of the loan repayments in relation to the 'capital in')
2. TRUE FALSE The wages of staff who actually make the product (or serve customers) are shown separately from the salary of the manager.

3. TRUE FALSE Rent is probably paid monthly, in advance.
4. TRUE FALSE The gas and electricity companies are probably paid monthly, in advance.
5. TRUE FALSE It is conventional in accounting to show negative figures in brackets.
6. TRUE FALSE The fact that cash flow was negative in January is a bad sign for this new business.

Continue in the same way, answering questions about cash flow in general.

7. TRUE FALSE On a spreadsheet, there would probably be two columns for each month: one for forecast figures and one for actual figures.
8. TRUE FALSE If you make a sale in January, but the customer takes advantage of one month's credit, the sales figure would be entered in January.
9. TRUE FALSE The cash flow statement contains a lot of new information that isn't available from the P&L or balance sheet.
10. TRUE FALSE A 12-month cash flow forecast is a key element in any business plan.

28.4. Make phrases by matching an item from each column.

1. record	the same logic	5. present	money from the bank
2. pay off	something as an expense	6. subtract	shares from the market
3. apply	capital by issuing new shares	7. buy back	one figure from another
4. raise	a credit account in full	8. borrow	information in a certain way

28.5. Fill in the gaps using these words: as, by, in, on.

1. spend money _____ plant and equipment
2. invest money _____ plant and equipment
3. have money available _____ cash
4. make a purchase _____ credit
5. raise capital _____ issuing new shares

Answer the question:

What do the letters CFS stand for? The _____

What do the letters FCF stand for? The _____

Decide which of the following would appear as OPERATING, FINANCING or INVESTING activities on a cash flow statement.

1. Money received by investing in stocks and bonds is a type of _____ cash flow.
2. Money received through issuing new shares in the company is a type of _____ cash flow.
3. Money generated by the sales of the company's goods or services is a type of _____ cash flow.
4. Dividends paid to the shareholders is a type of _____ cash flow.
5. Purchases of land, buildings and equipment is a type of _____ cash flow.
6. Money used to repay loans is a type of _____ cash flow.
7. Money spend on staff salaries is a type of _____ cash flow.