

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> | | | | | |
| 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 spent on staff salaries is a type of _____ cash flow.