

34.1 A drill to practise the relation between operating profit and cashflow (not including fixed asset acquisitions and disposals)

For each separate business below, produce a reconciliation between operating profit and the increase or decrease in cash held by the business during the period.

You may assume that there have been no transactions with the owner, and that the business has made no fixed asset purchases or disposal (any change in fixed asset value will be solely attributable to the depreciation charge for the year).

Remember that profit is reflected in an increase in net assets.

Business 1

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	400	Fixed Assets	375
Stock	250	Stock	200
Trade debtors	125	Trade debtors	100
Bank	100	Bank	90
	<u>875</u>		<u>765</u>
LIABILITIES		LIABILITIES	
Trade Creditors	(160)	Trade Creditors	(20)
NET ASSETS	<u>£715</u>	NET ASSETS	<u>£745</u>
CAPITAL	<u>£715</u>	CAPITAL	<u>£745</u>

Reconciliation of Operating Profit to Cash from Operations

	£
operating profit	30
decrease in debtors	25
decrease in creditors	(140)
decrease in stock	50
depreciation	25
cash from operations	<u>£(10)</u>

Proof:

closing bank	90
opening bank	(100)
decrease in cash	<u>£(10)</u>

Business 2

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	350	Fixed Assets	325
Stock	220	Stock	200
Trade debtors	140	Trade debtors	210
Bank	130	Bank	120
	<u>840</u>		<u>855</u>
LIABILITIES		LIABILITIES	
Trade Creditors	(45)	Trade Creditors	(55)
NET ASSETS	<u>£795</u>	NET ASSETS	<u>£800</u>
CAPITAL	<u>£795</u>	CAPITAL	<u>£800</u>

Reconciliation of Operating Profit to Cash from Operations

	£
operating profit	5
increase in debtors	(70)
increase in creditors	10
decrease in stock	20
depreciation	25
cash from operations	<u>£(10)</u>

Proof:

closing bank	120
opening bank	(130)
decrease in cash	<u>£(10)</u>

Business 3

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	325	Fixed Assets	300
Stock	200	Stock	280
Trade debtors	210	Trade debtors	190
Bank	120	Bank	150
	<u>855</u>		<u>920</u>
LIABILITIES		LIABILITIES	
Trade Creditors	(55)	Trade Creditors	(105)
NET ASSETS	<u>£800</u>	NET ASSETS	<u>£815</u>
CAPITAL	<u>£800</u>	CAPITAL	<u>£815</u>

Reconciliation of Operating Profit to Cash from Operations

	£
operating profit	15
decrease in debtors	20
increase in creditors	50
increase in stock	(80)
depreciation	25
cash from operations	<u>£30</u>

Proof:

closing bank	150
opening bank	(120)
increase in cash	<u>£30</u>

Business 4

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	300	Fixed Assets	275
Stock	280	Stock	100
Trade debtors	190	Trade debtors	50
Bank	150	Bank	450
	<u>920</u>		<u>875</u>
LIABILITIES		LIABILITIES	
Trade Creditors	(105)	Trade Creditors	(155)
NET ASSETS	<u>£815</u>	NET ASSETS	<u>£720</u>
CAPITAL	<u>£815</u>	CAPITAL	<u>£720</u>

**Reconciliation of Operating Loss
to Cash from Operations**

	£
operating loss	(95)
decrease in debtors	140
increase in creditors	50
decrease in stock	180
depreciation	25
cash from operations	<u>£300</u>

Proof:

closing bank	450
opening bank	(150)
increase in cash	<u>£300</u>

Business 5

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	275	Fixed Assets	250
Stock	100	Stock	300
Trade debtors	50	Trade debtors	240
Bank	450	Bank	50
	<u>875</u>		<u>840</u>
LIABILITIES		LIABILITIES	
Trade Creditors	(155)	Trade Creditors	(100)
NET ASSETS	<u>£720</u>	NET ASSETS	<u>£740</u>
CAPITAL	<u>£720</u>	CAPITAL	<u>£740</u>

Reconciliation of Operating Profit to Cash from Operations

	£
operating profit	20
increase in debtors	(190)
decrease in creditors	(55)
increase in stock	(200)
depreciation	25
cash from operations	<u>£(400)</u>
Proof:	
closing bank	50
opening bank	(450)
decrease in cash	<u>£(400)</u>

N.B. The Trade debtors line in the textbook is incorrect.

Business 6

opening balance sheet		closing balance sheet	
	£		£
ASSETS		ASSETS	
Fixed Assets	250	Fixed Assets	225
Stock	300	Stock	350
Trade debtors	240	Trade debtors	<u>300</u>
Bank	<u>50</u>		875
	840	LIABILITIES	
LIABILITIES		Trade Creditors	100
Trade Creditors	<u>(100)</u>	Bank overdraft	<u>25</u>
NET ASSETS	<u>£740</u>		(125)
		NET ASSETS	<u>£750</u>
CAPITAL	<u>£740</u>	CAPITAL	<u>£750</u>

**Reconciliation of Operating Profit
to Cash from Operations**

	£
operating profit	10
increase in debtors	(60)
(no change in creditors)	—
increase in stock	(50)
depreciation	<u>25</u>
cash from operations	<u>£(75)</u>

Proof:

closing overdraft	(25)
opening bank	<u>50</u>
decrease in cash	<u>£(75)</u>