

34.2 A drill to practise the relation between operating profit and cashflow (with fixed asset purchases 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 there have been no transactions with the owner.

Business 7

opening balance sheet			closing balance sheet		
	£	£		£	£
ASSETS			ASSETS		
Fixed Assets		225	Fixed Assets		360
Stock		350	Stock		300
Trade debtors		<u>300</u>	Trade debtors		<u>260</u>
		875			920
LIABILITIES			LIABILITIES		
Trade Creditors	100		Trade Creditors	110	
Bank overdraft	<u>25</u>		Bank overdraft	<u>45</u>	
		(125)			(155)
NET ASSETS		<u>£750</u>	NET ASSETS		<u>£765</u>
CAPITAL		<u>£750</u>	CAPITAL		<u>£765</u>

Relevant changes in fixed assets:

During the period, the business	
acquired a new fixed asset for	£300
and disposed of a fixed asset for	£150
Net book value of the disposal was	£125
Depreciation charged in the year was	£40

Reconciliation of Operating Profit to Total Cash Flow

	£
operating profit	15
decrease in debtors	40
increase in creditors	10
decrease in stock	50
depreciation	40
less profit on disposal	<u>(25)</u>
cash from operations	130
cash from disposal of fixed asset	150
cash paid for new fixed asset	<u>(300)</u>
Total decrease in cash	<u>£(20)</u>

Proof:

closing overdraft	(45)
opening overdraft	<u>(25)</u>
decrease in cash	<u>£(20)</u>

Business 8

opening balance sheet			closing balance sheet	
	£	£		£
ASSETS			ASSETS	
Fixed Assets		360	Fixed Assets	270
Stock		300	Stock	300
Trade debtors		<u>260</u>	Trade debtors	260
		920	Bank	<u>130</u>
				960
LIABILITIES			LIABILITIES	
Trade Creditors	110		Trade Creditors	<u>(145)</u>
Bank overdraft	<u>45</u>		NET ASSETS	<u>£815</u>
		(155)		
NET ASSETS		<u>£765</u>	CAPITAL	<u>£815</u>
CAPITAL		<u>£765</u>		

Relevant changes in fixed assets:

During the period, the business	
acquired a new fixed asset for	£100
and disposed of a fixed asset for	£140
Net book value of the disposal was	£160
Depreciation charged in the year was	£30

**Reconciliation of Operating Profit
to Total Cash Flow**

	£
operating profit	50
change in debtors	nil
increase in creditors	35
change in stock	nil
depreciation	30
add loss on disposal	<u>20</u>
cash from operations	135
cash from disposal of fixed asset	140
cash paid for new fixed asset	<u>(100)</u>
Total decrease in cash	<u>£175</u>
Proof:	
closing bank	130
opening overdraft	<u>(45)</u>
decrease in cash	<u>£175</u>