

Appendix 1

Level I

EA1.9 Time allowed – 45 minutes

Mike Ash decided to invest an inheritance of £5,000 in a business to provide word-processing and desktop publishing services. He purchased some computer equipment, a phone and fax system, a small photocopier, paper and computer stationery, and started business on 1 September 2000.

(i) During September there were no sales of publishing services but the business made the following transactions, which you are required to present in a T-account format.

	£
£5,000 from Mike Ash	5,000
Purchase of computer and printer for cash	1,700
Purchase of photocopier for cash	2,750
Purchase of stationery for cash	300
Purchase of computer printer/photocopy paper for cash	200

Mike soon realised that a CD rewriter was essential to back up the large amount of data he expected to be storing on his PC. He had spotted the best one for the job, which cost £200.

(ii) Can the business currently afford to buy the CD rewriter?

(iii) What other options are open to Mike?

Level II

EA1.10 *Time allowed – 45 minutes*

Arthur Moment set up a table making business, Forlegco, on 1 July 2000. He had £10,000 available to invest, which is the amount he estimated was required for setting up costs. In the first month of trading Forlegco entered into the following transactions:

	£
£10,000 from Arthur Moment	10,000
Purchase of hand tools for cash	2,000
Purchase of lathe, power saw and drill on one months credit	6,000
Purchase of printing and stationery - invoice received for half the order	100
The total order is £200, and it was all delivered in July and used	
Purchase of advertising flyers for cash	
2,000 at 50p each, of which 1,000 will be used in July, and 500 in August and September	
Purchases of timber, glue and varnish, from Woodco, payable within the month	
£1,500 - half of this stock will be on hand at 31 July 2000	
Sales of tables to Gardenfurnco for settlement one month later	
(10 tables at £700 each)	

(Note that you can use the simple profit and loss account and cash flow statement relating to the above transactions that you may have already calculated in Exercises EA1.4 and EA1.6).

- (i) Does the profit or loss for the month calculated in Exercise EA1.4 equal the cash movement in the month calculated in Exercise EA1.6? If it does not why doesn't it?**
- (ii) Prepare a reconciliation of profit to cash flow for the month of July 2000 for Forlegco to support your answer to (i) above.**