

Appendix 1

EA1.9 Mike Ash

(i)

	£	£
Capital		
Transaction 1		5,000
Balance c/f	5,000	
	5,000	5,000
Balance b/f @ 1/10/01		5,000

	£	£
Fixed assets - computer		
Transaction 2	1,700	
Balance c/f		1,700
	1,700	1,700
Balance b/f @ 1/10/01	1,700	

	£	£
Fixed assets - photocopier		
Transaction 3	2,750	
Balance c/f		2,750
	2,750	2,750
Balance b/f @ 1/10/01	2,750	

	£	£
Cash		
Transaction 1	5,000	
Transaction 2		1,700
Transaction 3		2,750
Transaction 4		300
Transaction 5		200
Balance c/f		50
	5,000	5,000
Balance b/f @ 1/10/01	50	

	£	£
Printing/stationery expenses		
Transaction 4	300	
Transaction 5	200	
Balance c/f		500
	500	500
Balance b/f @ 1/10/01	500	

(ii)

At the end of September the Mike Cash business can not afford the CD rewriter for £200 because the cash balance at that date although positive is only £50.

(iii)

Your solution to this part may consider, for example

- delaying the purchase until the business is able to earn income and obtain cash from sales of its services
- loans from friends or family
- bank overdraft or loan

You should also consider the costs of the various options open to Mike, and the potential risks to the business of not purchasing the CD rewriter.

(i)

Profit for July 2000 for Forlegco is £5,550 whilst the net cash inflow for the month is £5,500.

Profit in the month therefore does not equal cash flow. There is a difference of £50 because

- cash was received into the business for capital which does not go into the profit and loss account
- no cash was received from sales made to customers during the month
- advertising paid for in the month was not all carried out in the month
- stocks purchased in the month were not all used for sales in the month
- purchases of stationery were not paid for during the month
- payment for capital expenditure (equipment) is not included in the profit and loss account

(ii)

	£
Profit for the month of July 2000	5,550
Capital received into the business	10,000
Sales to customers from whom no cash received	(7,000)
Advertising paid for but not carried out	(500)
Stocks paid for but not used	(750)
Printing and stationery used but not yet paid for	200
Equipment purchased	<u>(2,000)</u>
Cash inflow for July 2000	<u>5,500</u>