

Note: Higher level questions are marked with an asterisk*

***4. Craca**

Craca is a small but rapidly expanding Italian ceramics company. The company's statement of changes in equity for the year ended 31 December 2023 and the statements of financial position as at 31 December 2023 and 2022 are given below. There were no disposals of non-current assets during the year and no interest or taxation was paid.

Craca				
Statement of changes in equity for the year ended 31 December				
	Ordinary share capital	Share premium	Retained profits	Total equity
	€	€	€	€
At 1 January 2023	28,000		82,975	110,975
Share issue	7,000	1,000		8,000
Profit for the year			15,400	15,400
At 31 December 2023	35,000	1,000	98,375	134,375

Craca				
Statements of financial position as at 31 December				
	2023		2022	
	COST	DEPN	COST	DEPN
	€	€	€	€
ASSETS				
Non-current assets				
Property	37,600	-	37,600	-
Plant and equipment	111,500	65,000	81,500	40,000
	149,100	65,000	119,100	40,000

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Net book value	84,100	79,100
Current assets		
Inventories	55,435	40,896
Trade receivables	34,973	28,901
Balance at bank	4,522	1,178
	94,930	70,975
Total assets	179,030	150,075
EQUITY AND LIABILITIES		
Equity		
Ordinary shares of €1 each	35,000	28,000
Share premium account	1,000	-
Retained profits	98,375	82,975
Total equity	134,375	110,975
Current liabilities		
Trade payables	44,655	39,100
Total equity and liabilities	179,030	150,075

REQUIRED:

- a. How much cash was raised from the share issue during the year?
- b. How much was spent on purchases of plant and equipment during the year?
- c. Prepare a statement of cash flows for Craca for the year ended 31 December 2023.
- d. Despite making a profit after tax of €15,400, Craca's bank balance increased by only €3,344. Identify the two main reasons for this.

5. Anna Belle

Anna Belle has been in business for a few years as a maker of hand-made evening dresses, which are made to order for a few select department stores. Most sales are made on credit. Her most recent statement of profit or loss shows a profit of £41,000 and, during that year, she made a very small amount of drawings. Despite this, her bank overdraft increased during the year from £3,000 at the beginning of the year to £4,500 at the year end. She understands the statement of profit or loss but is uncertain about how best to manage her cash flows. Anna has sought your assistance to help her understand some of the issues involved.

- a) It is a commonly held belief that a profitable business must be generating sufficient cash flows. However, this is not so, and it is possible for a profitable business to have cash flow problems and a large overdraft. Give three possible reasons that may cause this to happen.
- b) Anna has been advised that, in order to improve her cash position, she should reduce the amount owed to her by trade receivables. Advise Anna on ways in which this could be done.
- c) Anna likes to maintain high levels of inventories and, hence, she has a storeroom full of various fabrics. Advise Anna on whether this is a wise policy and what the implications are for the business.

***6. Zust GmbH**

Zust GmbH runs language courses for students in Berlin and Hamburg. In January 2023, the company invested in a new language laboratory in order to improve its facilities. Extracts from the company's financial statements are given below. There were no disposals of non-current assets during the year and no taxation was paid.

Zust GmbH	
Extract from the statement of profit or loss for the year ended 30 June 2023	
	€
Operating profit	28,900
Interest	1,500
Profit for the year	27,400

Zust GmbH				
Statement of changes in equity for the year ended 30 June 2023				
	Ordinary share capital	Share premium	Retained profits	Total equity
	€	€	€	€
At 1 July 2022	60,000	72,100	89,900	222,000
Profit for the year			27,400	27,400
Dividend paid			(15,000)	(15,000)
At 30 June 2023	60,000	72,100	102,300	234,400

Zust GmbH				
Statements of financial position as at 30 June				
	2023		2022	
ASSETS	€	€	€	€
Non-current assets				
Equipment and fittings at cost		464,400		312,300
Accumulated depreciation		182,400		109,990
Net book value		282,000		202,310
Current assets				

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Inventories	8,400	3,300
Trade receivables	7,800	6,700
Balance at bank	3,180	23,900
	19,380	33,900
Total assets	301,380	236,210
EQUITY AND LIABILITIES		
Equity		
Ordinary shares of €5 each	60,000	60,000
Share premium account	72,100	72,100
Retained profits	102,300	89,900
Total equity	234,400	222,000
Long-term liabilities		
6% loan	50,000	-
Current liabilities		
Trade payables	16,980	14,210
Total equity and liabilities	301,380	236,210

REQUIRED:

- a. Prepare a statement of cash flows for Zust GmbH for the year ended 30 June 2023.
- b. Briefly explain what has happened to Zust's cash flows over the year to 30 June 2023 and how the purchase of the new non-current assets was funded.