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| **Stage 2 Accounting** | **Assessment Type 1:** Concepts and Solutions |
| **Key Context** | Managing Financial Sustainability |
| **Learning Strands** | Financial literacy  Stakeholder information and decision-making  Innovation |

**Cashflow statement and analysis**

**Background**

Students take on the role of a junior associate in an accounting firm. They prepare a cashflow statement, at their manager’s request, and in response to a client’s concerns regarding the current cash position of his business. Following completion of the cashflow statement, students videoconference with their client to discuss the cashflow statement and answer any questions the client may have.

**Assessment details**

Part 1 **Cashflow statement preparation**

Using unseen data, students complete a cashflow statement under supervised conditions.

Part 2 **Cashflow statement analysis - response to owner (interview)**

Upon completion and submission of their cashflow statement, students receive a list of potential questions they may be asked about their cashflow statement in an interview with the business owner. Students have two days to prepare for the interview. Students will only be asked some of the questions on the list.

**Assessment conditions**

Part 1 Cashflow statement preparation: 250 words approx. 30 minutes under supervised conditions.

Part 2 Cashflow statement analysis - response to owner (interview): 3 minutes

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| --- | --- |
| **Assessment Design Criteria** | |
| Understanding and Exploration | UE2 Exploration and interpretation of accounting information needs of stakeholders |
| Application | Ap1 Application of accounting concepts and conventions to create accounting information for stakeholders  Ap2 Application of communication skills in an accounting context |
| Analysis and Evaluation | AE1 Analysis and evaluation of accounting information to manage financial sustainability |

**Performance Standards Stage 2 Accounting AT1: Cashflow statement & analysis**

| - | Understanding and Exploration | Application | Analysis and Evaluation |
| --- | --- | --- | --- |
| A | In-depth understanding and exploration of accounting concepts and conventions  Insightful exploration and interpretation of accounting information needs of stakeholders | Logical and perceptive interpretation and application of accounting concepts and conventions to create highly relevant accounting information for stakeholders  Astute application of communication skills in an accounting context  Proficient application of collaboration skills in an accounting context | Perceptive analysis and evaluation of accounting information to manage financial sustainability  Perceptive analysis and evaluation of accounting information to develop and propose authentic accounting advice to inform stakeholder decision-making |
| B | Detailed understanding and exploration of accounting concepts and conventions  Some depth in exploration and interpretation of accounting information needs of stakeholders | Capable and well-informed interpretation and application of accounting concepts and conventions to create relevant accounting information for stakeholders  Well considered application of communication skills in an accounting context  Some proficiency in the application of collaboration skills in an accounting context | Some perceptiveness in analysis and evaluation of accounting information to manage financial sustainability  Well considered analysis and evaluation of accounting information to develop and propose authentic accounting advice to inform stakeholder decision-making |
| C | Understanding and exploration of accounting concepts and conventions  Exploration and interpretation of accounting information needs of stakeholders | Interpretation and application of accounting concepts and conventions to create accounting information for stakeholders  Application of communication skills in an accounting context  Application of collaboration skills in an accounting context | Analysis and evaluation of accounting information to manage financial sustainability  Analysis and evaluation of accounting information to develop and propose authentic accounting advice to inform stakeholder decision-making |
| D | Some recognition and basic exploration of accounting concepts and conventions  Some exploration of accounting information needs of stakeholders | Some application of accounting concepts and conventions to create accounting information  Some application of communication skills in an accounting context  Some application of collaboration skills in an accounting context. | Some description of accounting information to manage financial sustainability  Basic use of accounting information to develop accounting advice to inform stakeholder decision-making |
| E | Basic recognition of the accounting concepts and conventions  Attempted exploration of accounting information needs of stakeholders | Limited application of accounting concepts and conventions to create basic accounting information  Limited application of communication skills in an accounting context  Basic application of collaboration skills in an accounting context | Awareness of accounting information to manage financial sustainability  Attempted useof accounting information to develop accounting advice to inform stakeholder decision-making |

**Cash Flow statement and analysis (response to owner)**

Manuel Laybore owns and runs a small business Potato Products Plus that farms and sells fresh potatoes and other potato related products. Manuel has approached the accounting firm you work for, S Pudley and Associates, he is concerned with the current cash position of his business.

You are provided the following financial information for *Potato Products Plus*:

**POTATO PRODUCTS PLUS**

COMPARATIVE BALANCE SHEETS

AS AT 30 JUNE

**2018 2017**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **$'000's** |  | **$,000's** |  |
| *Current Assets* |  |  |  |  |
| Cash on Hand | 3 |  | 7 |  |
| Cash at Bank |  |  | 18 |  |
| Accounts Receivable (net) | 15 |  | 27 |  |
| Inventory | 23 |  | 18 |  |
| Prepaid Rent Expense | 9 | 50 | 3 | 73 |
| *Non-Current Assets* |  |  |  |  |
| Farming Equipment | 318 |  | 310 |  |
| less Acc. Depreciation | 70 | 248 | 150 | 160 |
| Investments |  | 42 | - | . . |
| *Total Assets* |  | 340 |  | 233 |
|  |  |  |  |  |
| *Current Liabilities* |  |  |  |  |
| Bank Overdraft | 20 |  |  |  |
| Accounts Payable | 18 |  | 32 |  |
| Accrued Wages Expense | 3 |  | 1 |  |
| Tax Payable | 9 | 50 | 20 | 53 |
| *Non-Current Liabilities* |  |  |  |  |
| Loan |  | 160 |  | 50 |
| *Total Liabilities* |  | 210 |  | 103 |
| *Net Assets* |  | 130 |  | 130 |
|  |  |  |  |  |
| *Equity* |  |  |  |  |
| Capital |  | 130 |  | 130 |
|  |  |  |  |  |

(continued)

**POTATO PRODUCTS PLUS**

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

|  |  |  |
| --- | --- | --- |
|  | **$'000's** |  |
|  |  |  |
| Net Sales | 736 |  |
| Cost of Sales | 366 |  |
| *Gross Profit:* |  | 370 |
| *Other Revenue:* |  |  |
| Gain on Sale of Assets | 1 |  |
| Interest Revenue | 2 |  |
| Discount Received | 4 | 7 |
|  |  | 377 |
| *Expenses:* |  |  |
| Selling & Admin Expense | 289 |  |
| Doubtful Debts Expense | 7 |  |
| Depreciation Expense | 20 |  |
| Interest Expense | 11 | 327 |
| Profit before tax |  | 50 |
| Income tax expense |  | 15 |
| Profit |  | 35 |
|  |  |  |

*Additional Information:*

Farming Equipment with a historic cost of $110, 000 was sold for $11,000 cash making the company a profit of $1000. Manuel made a $5,000 cash contribution of capital in November 2017.

**REQUIRED**

**Part 1**

Your manager, Sarah Pudley has asked you to prepare a cash flow statement and then arrange to meet with Manuel to answer questions he has so that he can see what areas of the business may need attention. You have arranged to meet with Manuel via video conference in two days.

Prior to meeting with Manuel, Sarah has asked that you send the cash flow statement to her so it can be checked. The cashflow statement needs to be on Sarah’s desk within 30 minutes.

**Part 2**

Sarah has also agreed to provide you with some guidance on the questions Manuel is likely to ask once she has reviewed your cash flow statement.

Having reviewed the cash flow statement, Sarah has made some minor adjustments and given it back to you with the following questions that she anticipates Manuel could ask.

* **My balance sheet shows I have $3000 cash on hand, why have you reported it as $(XX,XXX)?**
* **Why has my cash position decreased when I made a profit last year?**
* **Is a $39,000 inflow from Operations a good result?**
* **The balance in my farm equipment account only went up by $8,000, and I made a $1,000 profit, why does the cash flow show equipment as an $118,000 outflow?**
* **Should I have gotten a bigger loan?**
* **Are these any items on the cash flow statement that I could have avoided to help my cash position?**

As Manuel is very busy, you will only have a maximum of 3 minutes to meet with him via videoconference. This means you will not have a chance to answer all of the questions above but you should be prepared to answer at least 3 of them in some detail.

**Part 1**

**POTATO PRODUCTS PLUS**

**Statement of Cash Flows**

**for the year ended 30 June 2018**

*Cash Flows from Operating Activities* $’000 $’000

Receipts from customers

Payments to suppliers & employees \_\_\_\_\_\_

Cash generated from operations

Dividends received

Interest received

Interest paid

Income tax paid \_\_\_\_\_\_ \_\_\_\_\_\_

*Cash Flows from Investing Activities*

Purchase of Equipment

Purchase of Investments

Proceeds of Sale of Assets \_\_\_\_\_\_ \_\_\_\_\_\_

*Cash Flows from Financing Activities*

Proceeds from Loan

Proceeds of Share Issue

Drawings \_\_\_\_\_\_ \_\_\_\_\_\_

Net increase / decrease in cash held

Cash at the beginning of the year \_\_\_\_\_\_

Cash at the end of the year \_\_\_\_\_\_