Note: Higher level questions are marked with an asterisk*

***4. Craca**

a) €8,000 was raised from the share issue.

b) €30,000 was spent on purchases of plant and equipment during the year.

c)

Craca
Statement of cash flows for the year ended 31 December 2023

		€
Cash flows from operating activities		
	Operating profit	15,400
ADD:	Depreciation	25,000
		40,400
Working capital movements		
LESS:	Increase in inventories	(14,539)
LESS:	Increase in trade receivables	(6,072)
ADD:	Increase in trade payables	5,555
Cash generated from operations		25,344
Cash flows from investing activities		
	Purchase of plant and equipment	(30,000)
Cash flows from financing activities		
	Proceeds of share issue	8,000
Net increase in cash		3,344
Cash balances at 1 January 2023		1,178
Cash balances at 31 December 2023		4,522

d) A very large amount was spent on purchases of plant and equipment.

The amount of inventories held increased significantly.

5. Anna Belle

a) There are many reasons why a profitable business might not generate sufficient cash flows. Some possible reasons are as follows:

- If a business purchases non-current assets**,** this is likely to result in a significant reduction in the business's cash balance but would only reduce the profit by the amount of depreciation charged for the year.
- The sales figure in the statement of profit or loss will include all of the sales made, including all credit sales. However, if sales are made on credit, then not all sales will have led to cash flowing into the business as there will be trade receivables at the year end where the cash has not yet been received.
- If a business has increased the amount of inventory held, this will have reduced the bank balance without affecting the profit figure.

b) Anna could control her trade receivables by:

- only making sales on credit to credit-checked customers
- promptly following up unpaid debts with phonecalls and letters
- allowing discounts for prompt payment.

c) Holding large quantities of fabrics is not advisable for Anna's business. This is because inventory ties up money resulting in a bigger overdraft at the bank. In addition, inventory held is liable to damage and is also at risk of going out of fashion.

Anna also needs to be aware that storing inventory can be expensive as the fabrics would need to be stored in certain conditions.

***6. Zust GmbH**

a)

Zust GmbH
Statement of cash flows for the year ended 30 June 2023

			€
Cash flows from operating activities			
	Operating profit		28,900
ADD:	Depreciation		72,410
			101,310
Working capital movements			
LESS:	Increase in inventories		(5,100)
LESS:	Increase in trade receivables		(1,100)
ADD:	Increase in trade payables		2,770
Cash generated from operations			97,880
	Interest paid		(1,500)
Cash flows from investing activities			
	Purchase of equipment and fittings		(152,100)
Cash flows from financing activities			
	Proceeds of loan issue	50,000	
	Dividends paid	(15,000)	
			35,000
Net decrease in cash			(20,720)
Cash balances at 1 July 2022			23,900
Cash balances at 30 June 2023			3,180

b)

- During the year ended 30 June 2023, the company spent €152,100 on new equipment and fittings, most of which probably relates to the new language laboratory.
- During that year, €50,000 was raised from a new loan issued but no new shares were issued. This loan provided part of the funding for the

purchases of non-current assets.

- The company did generate a significant amount of cash from operations during the year, €97,880 and, although a dividend of €15,000 was paid, there was still adequate cash left with which to fund the purchase of the new non-current assets.
- Zust had €23,900 in the bank at the beginning of the financial year and this was reduced to €3,180 by the year end as a result of the investment in the new laboratory.
- In summary, the purchase of non-current assets was funded from the cash at bank at the beginning of the year, the cash generated from operations, and the loan taken out during the year.