

# Engineering Economics & Management

## Financial Management & Economics

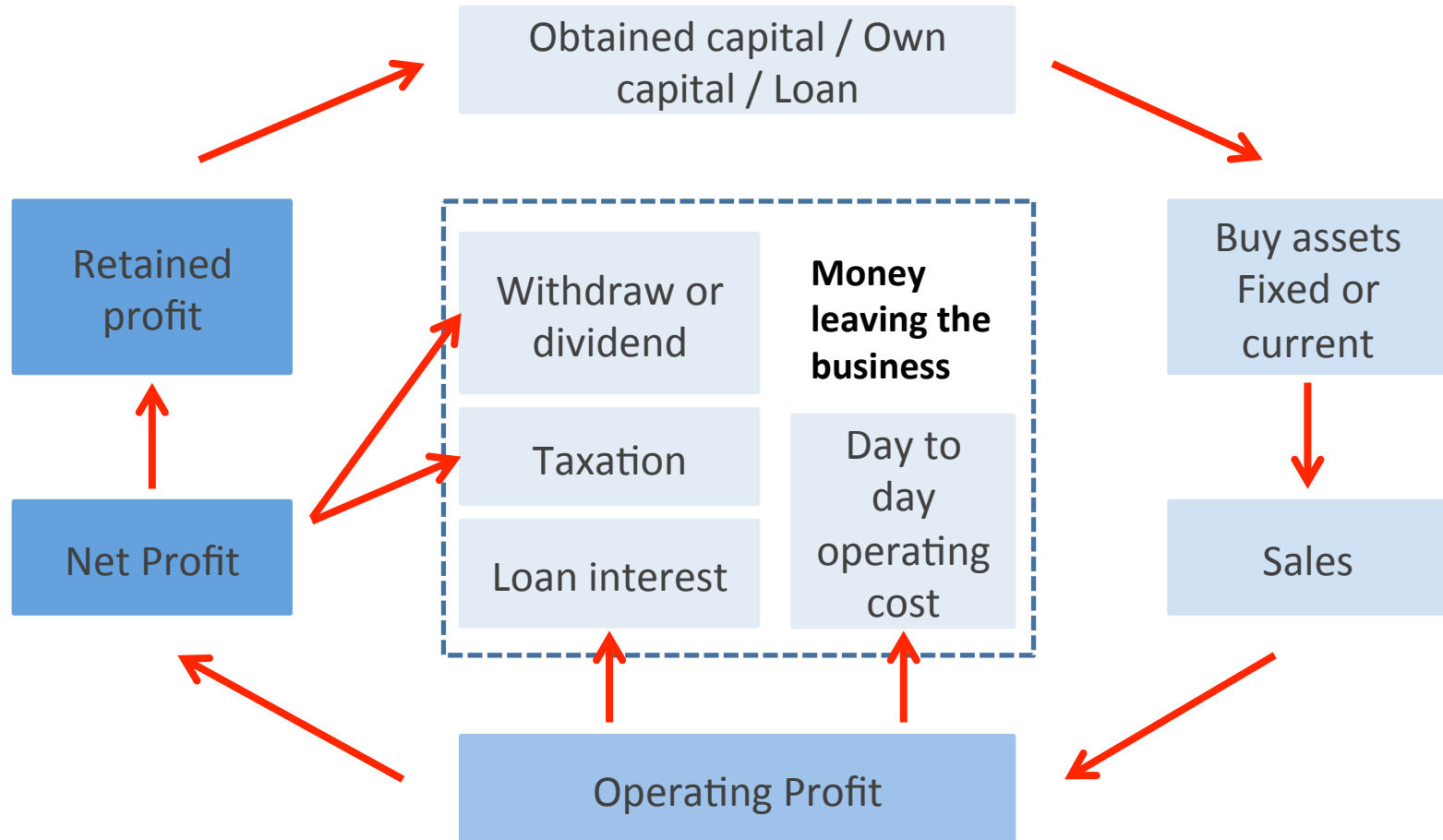
9<sup>th</sup> May 16

# Company Accounts

*9<sup>th</sup> May 16*

# Flow of Money

9<sup>th</sup> May 16



# Accounting Equation

*9<sup>th</sup> May 16*

# Flow of Money

9<sup>th</sup> May 16

- **Capital:** The money with which a business starts up and also can be the assets that are used in business.
- **An Asset:** Something owned by a business.
- **A Liability:** A debt owed by a business.

# Flow of Money

9<sup>th</sup> May 16

**Assets = Capital + Liabilities**

**Capital = Assets – Liabilities**

**Capital → Owner Funds**

# Balance Sheet

*9<sup>th</sup> May 16*

# Balance Sheet

9<sup>th</sup> May 16

<b><u>FA</u></b> <b>Fixed Assets</b>  Assets for use in long term (Property, Plant, Equipment, etc)	<b><u>OF</u></b> <b>Owners Funds</b>
	<b><u>LTL</u></b> <b>Long Term Liabilities</b>  Payments due in long terms (Bank Loans, etc)
<b><u>CA</u></b> <b>Current Assets</b>  Assets to use in short term (Cash, Inventory, etc)	<b><u>CL</u></b> <b>Current Liabilities</b>  Payments due in short term (Utility Bills, etc)



# Cash Flow Statement

*9<sup>th</sup> May 16*

# Concept of Debtor & Creditors

9<sup>th</sup> May 16

**Debtor Days:** Time in which payment must be received from the Debtors (Such as customers)

**Creditors Days:** Time in which payments must be made to Creditors (such as suppliers)

# Cash Flow Statement

9<sup>th</sup> May 16

£ Thousands	1	2	3	4	5	6	7	8	9	10	11	12
Sales Cash In	90	100	90	90	80	80	110	110	90	100	120	140
<i>Cash Out:</i>												
Wages	40	40	40	45	45	40	40	45	50	55	60	50
Materials	35	35	80	30	30	25	25	35	35	30	35	45
Overheads	10	11	11	11	11	11	11	12	12	14	14	14
Rent	30	0	0	30	0	0	30	0	0	35	0	0
Total Cash Out:	115	86	131	116	86	76	106	92	97	134	109	109
<b>Net Cash Flow:</b>	<b>-25</b>	<b>14</b>	<b>-41</b>	<b>-26</b>	<b>-6</b>	<b>4</b>	<b>4</b>	<b>18</b>	<b>-7</b>	<b>-34</b>	<b>11</b>	<b>31</b>
Opening Balance	0	-25	-11	-52	-78	-84	-80	-76	-58	-65	-99	-88
Closing Balance	-25	-11	-52	-78	-84	-80	-76	-58	-65	-99	-88	-57

# Example

9<sup>th</sup> May 16

Kent Limited designs and manufactures IT networking equipment and has debtor days of 60 days and creditor days of 90 days. The firm is considering its budgets and will produce a cash flow forecast for next year. The table below shows the expected timing of the transactions during the year. The assumptions that the company make are that wages are paid immediately; overheads and rent are paid after 30 days.

# Example

9<sup>th</sup> May 16

Thousands	Months											
Item	1	2	3	4	5	6	7	8	9	10	11	12
Sales	70	80	100	80	80	100	120	120	100	110	120	150
Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	25	30	35	40	60	30	35	40	45	50	60	80
Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

Thousands	Months		
Item	10	11	12
Sales	60	80	90
Wages	30	40	45
Materials	30	35	40
Overheads	10	10	10
Rent			30

**Debtor days of 60 days**  
**Creditor days of 90 days**  
**Wages Immediate**  
**Overhead & Rent 30 days**

# Example

9<sup>th</sup> May 16

Thousands	Months											
Item	1	2	3	4	5	6	7	8	9	10	11	12
Sales												
Wages												
Materials												
Overheads												
Rent												
<b>Total Cash Out</b>												
<b>Net Cash Flow</b>												
<b>Opening Balance</b>												
<b>Closing Balance</b>												

**Debtor 60 days Creditor 90 days Wages Immediate Overhead & Rent 30 days**

# Example

9<sup>th</sup> May 16

Thousands	Months											
Item	1	2	3	4	5	6	7	8	9	10	11	12
Sales	70	80	100	80	80	100	120	120	100	110	120	150
Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	25	30	35	40	60	30	35	40	45	50	60	80
Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

Thousands	Months		
Item	10	11	12
Sales	60	80	90
Wages	30	40	45
Materials	30	35	40
Overheads	10	10	10
Rent			30

**Debtor days of 60 days**  
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**Overhead & Rent 30 days**

# Example

9<sup>th</sup> May 16

Thousands	Months											
Item	1	2	3	4	5	6	7	8	9	10	11	12
Sales	80	90	70	80	100	80	80	100	120	120	100	110
Wages												
Materials												
Overheads												
Rent												
<b>Total Cash Out</b>												
<b>Net Cash Flow</b>												
<b>Opening Balance</b>												
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	25	30	35	40	60	30	35	40	45	50	60	80
Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

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Item	10	11	12
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials												
Overheads												
Rent												
<b>Total Cash Out</b>												
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<b>Opening Balance</b>												
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	25	30	35	40	60	30	35	40	45	50	60	80
Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

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Overheads												
Rent												
<b>Total Cash Out</b>												
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<b>Opening Balance</b>												
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	25	30	35	40	60	30	35	40	45	50	60	80
Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

Thousands	Months		
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	30	35	40	25	30	35	40	60	30	35	40	45
Overheads	10	10	10	10	12	12	12	12	12	12	12	12
Rent												
<b>Total Cash Out</b>												
<b>Net Cash Flow</b>												
<b>Opening Balance</b>												
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Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

Thousands	Months		
Item	10	11	12
Sales	60	80	90
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Materials	30	35	40	25	30	35	40	60	30	35	40	45
Overheads	10	10	10	10	12	12	12	12	12	12	12	12
Rent	30	0	0	30	0	0	30	0	0	35	0	0
<b>Total Cash Out</b>												
<b>Net Cash Flow</b>												
<b>Opening Balance</b>												
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Overheads	10	10	10	12	12	12	12	12	12	12	12	14
Rent			30			30			35			35

Thousands	Months		
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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	30	35	40	25	30	35	40	60	30	35	40	45
Overheads	10	10	10	10	12	12	12	12	12	12	12	12
Rent	30	0	0	30	0	0	30	0	0	35	0	0
<b>Total Cash Out</b>	<b>110</b>	<b>85</b>	<b>90</b>	<b>110</b>	<b>87</b>	<b>87</b>	<b>122</b>	<b>112</b>	<b>82</b>	<b>127</b>	<b>97</b>	<b>97</b>
<b>Net Cash Flow</b>												
<b>Opening Balance</b>												
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**Debtor 60 days Creditor 90 days Wages Immediate Overhead & Rent 30 days**

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Wages	40	40	40	45	45	40	40	40	40	45	45	40
Materials	30	35	40	25	30	35	40	60	30	35	40	45
Overheads	10	10	10	10	12	12	12	12	12	12	12	12
Rent	30	0	0	30	0	0	30	0	0	35	0	0
<b>Total Cash Out</b>	<b>110</b>	<b>85</b>	<b>90</b>	<b>110</b>	<b>87</b>	<b>87</b>	<b>122</b>	<b>112</b>	<b>82</b>	<b>127</b>	<b>97</b>	<b>97</b>
<b>Net Cash Flow</b>	<b>-30</b>	<b>5</b>	<b>-20</b>	<b>-30</b>	<b>13</b>	<b>-7</b>	<b>-42</b>	<b>-12</b>	<b>38</b>	<b>-7</b>	<b>3</b>	<b>13</b>
Opening Balance												
Closing Balance												

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Thousands	Months											
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Overheads	10	10	10	10	12	12	12	12	12	12	12	12
Rent	30	0	0	30	0	0	30	0	0	35	0	0
<b>Total Cash Out</b>	<b>110</b>	<b>85</b>	<b>90</b>	<b>110</b>	<b>87</b>	<b>87</b>	<b>122</b>	<b>112</b>	<b>82</b>	<b>127</b>	<b>97</b>	<b>97</b>
<b>Net Cash Flow</b>	<b>-30</b>	<b>5</b>	<b>-20</b>	<b>-30</b>	<b>13</b>	<b>-7</b>	<b>-42</b>	<b>-12</b>	<b>38</b>	<b>-7</b>	<b>3</b>	<b>13</b>
<b>Opening Balance</b>	<b>0</b>	<b>-30</b>	<b>-25</b>	<b>-45</b>	<b>-75</b>	<b>-62</b>	<b>-69</b>	<b>-111</b>	<b>-123</b>	<b>-85</b>	<b>-92</b>	<b>-89</b>
<b>Closing Balance</b>	<b>-30</b>	<b>-25</b>	<b>-45</b>	<b>-75</b>	<b>-62</b>	<b>-69</b>	<b>-111</b>	<b>-123</b>	<b>-85</b>	<b>-92</b>	<b>-89</b>	<b>-76</b>

**Debtor 60 days Creditor 90 days Wages Immediate Overhead & Rent 30 days**

# Thankyou

*9<sup>th</sup> May 16*