



# AAT

## Cash and Treasury Management

### Pocket Notes

These Pocket Notes support study for the following AAT qualifications:

AAT Professional Diploma in Accounting – Level 4

AAT Level 4 Diploma in Business Skills

AAT Professional Diploma in Accounting at SCQF Level 8

**KAPLAN**  
PUBLISHING

## British library cataloguing-in-publication data

A catalogue record for this book is available from the British Library.

Published by:  
Kaplan Publishing UK  
Unit 2 The Business Centre  
Molly Millars Lane  
Wokingham  
Berkshire  
RG41 2QZ

ISBN 978-178740-551-6

© Kaplan Financial Limited, 2019

Printed and bound in Great Britain.

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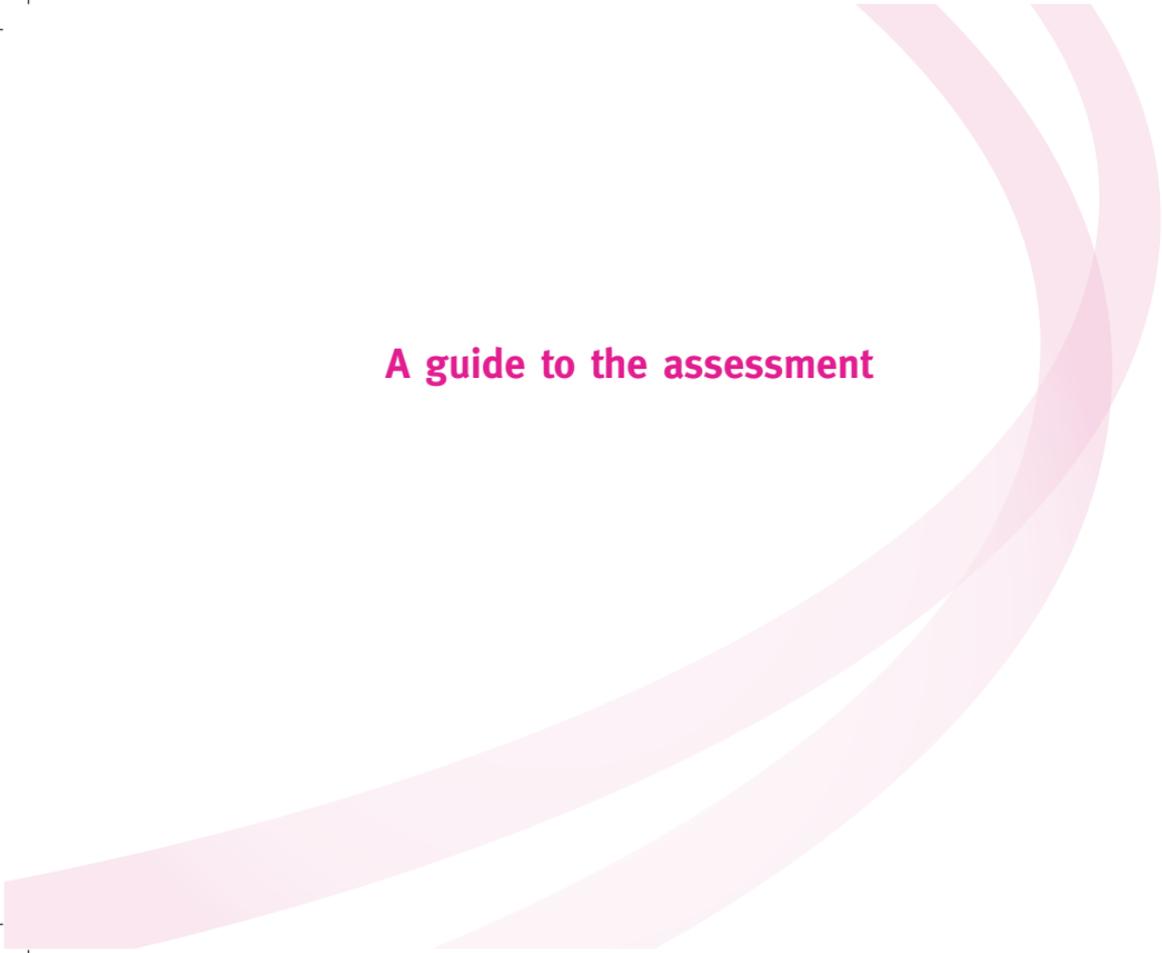
## Preface

These Pocket Notes contain the key things that you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these Pocket Notes break down content into manageable chunks to maximise your concentration.

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## **A guide to the assessment**

### The assessment

Cash and Treasury Management (CTRM) is an optional unit on the Professional Diploma in Accounting qualification.

### Examination

CTRM is assessed by means of a computer based assessment. The CBA will last for 2 hours 30 minutes and consist of 10 tasks.

In any one assessment, students may not be assessed on all content, or on the full depth or breadth of a piece of content. The content assessed may change over time to ensure validity of assessment, but all assessment criteria will be tested over time.

### Learning outcomes & weighting

- |   |      |
|---|------|
| 1. Use statistical techniques and financial information to prepare forecasts of cash receipts and payments      | 10%  |
| 2. Prepare cash budgets and monitor cash flows within the organisation  | 20%  |
| 3. Evaluate the principles of cash management within the context of regulation and government monetary policies | 20%  |
| 4. Evaluate ways of raising finance in accordance with organisational requirements                              | 25%  |
| 5. Evaluate ways of investing surplus funds within organisational policies                                      | 25%  |
| Total   | 100% |

**Pass mark**

To pass a unit assessment, students need to achieve a mark of 70% or more.

This unit contributes 10% of the total amount required for the Professional Diploma in Accounting qualification.

chapter

# 1

## Cash and profit

- Types of cash flow.
- Cash flow and profit.
- Calculating cash flows.
- Reconciling profit to cash flows.

## Types of cash flow

### Cash inflows

#### Revenue receipts

- cash sales
- receipts from credit customers

#### Capital receipts

- taking out a loan
- issue of more shares
- sale of non-current assets

### Cash outflows

#### Revenue payments

- cash purchases
- payments to credit suppliers
- wage payments
- payment of bills/expenses

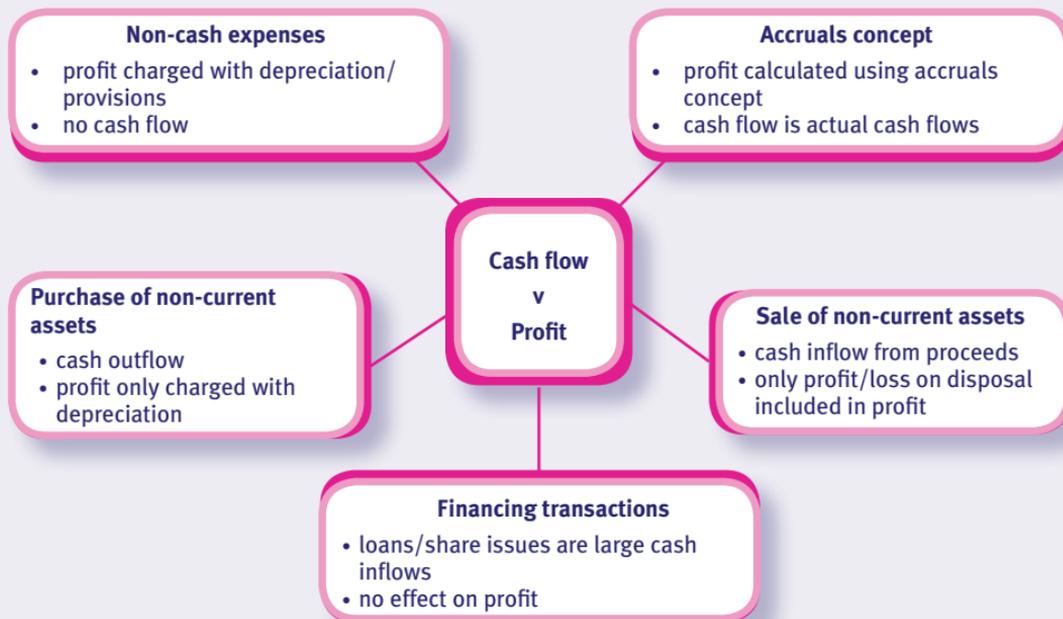
#### Capital payments

- repayment of loans
- purchase of non-current assets

#### Other payments

- dividends/loan interest/drawings

## Cash flow and profit



## Calculating cash flows

Adjust statement of profit or loss figures to calculate cash flows in a period including:

- Actual cash received from receivables
- Actual cash paid to payables
- Actual cash paid for other expenses
- Actual cash received/paid for sale/purchase of non-current assets

### Definition

- Accrual – expense incurred in a period that has not yet been paid.
- Prepayment – payment made for an expense yet to be incurred.

e.g.

### Example

The statement of profit or loss for C Lad's business for the quarter ended September is as follows:

	£	£
Revenue		352,000
Less: Purchases		(78,695)
		<hr/>
Gross profit		273,305
Less: Expenses		
Wages	60,560	
Rent of office	40,000	
Insurance of machinery	30,000	
Electricity	12,000	
Depreciation	3,000	
		<hr/>
		(145,560)
Profit		<hr/> 127,745 <hr/>

Extracts from the Statement of Financial Position at 1 July and 30 September show the following:

	1 July	30 Sept
	£	£
Trade receivables	42,256	37,258
Trade payables	12,874	12,321
Accruals – Electricity	650	550
Prepayments – Rent of office	3,000	6,000

Calculate the actual business cash receipts and cash payments for the quarter to 30 September

	£
Sales receipts	356,998
Purchases	79,248
Wages	60,560
Rent of office	43,000
Insurance of machinery	30,000
Electricity	12,100
Depreciation	0

Trade receivables			Trade payables		
Opening balance	42,256	Cash received	356,998	Cash paid	79,248
Sales	352,000	Closing balance	37,258	Closing balance	12,321
	394,256		394,256	Purchases	78,695
					91,569

Rent of Office			Electricity		
Opening prepayment	3,000	Income statement	40,000	Cash paid	12,100
Cash paid	43,000	Closing prepayment	6,000	Closing accrual	550
	46,000		46,000	Income statement	12,000
					12,650

An opening prepayment has already been paid but the closing prepayment will be paid in this period (Rent). An opening accrual will be paid in the this period whereas the closing accrual will not (Electricity).

### Reconciling profit to cash flows

Reconciling profit to cash flow involves adjusting profit for the effect of cash inflows, cash outflows and non-cash items to calculate the net cash flow for the period:

- cash inflows will be added to profit
- cash outflows will be deducted from profit
- non-cash items will be added to profit

Items added to profit to calculate cash:

- depreciation (a non-cash item)
- loss on disposal (a non-cash item)
- a decrease in the receivables balance
- a decrease in the inventory balance
- an increase in the payables balance
- any excess of the tax and or interest SoPL charge over the cash paid

Items deducted from profit to calculate cash:

- profit on disposal (a non-cash item)
- an increase in the receivables balance is deducted from profit
- an increase in the inventory balance
- a decrease in the payables balance
- any excess of the cash paid for tax and or interest over the SoPL charge