

Question 3

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(a) **Reconciliation of operating profit to net cash flow from operating activities**

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Operating profit	140,000	(2)
Depreciation charges for the year	75,000	(4)
Profit on sale of machinery	(3,000)	(6)
Increase in stock	(15,000)	(2)
Increase in debtors	(10,000)	(2)
Increase in creditors	<u>22,000</u>	(2)
Net cash inflow from operating activities	<u>209,000</u>	(2)

Cash Flow Statement of Butler Plc for the year ended 31/12/2005

	€	
Operating Activities		
Net cash inflow from operating activities	209,000	(1)
Returns on investments and servicing of finance		
Interest paid	(6,800)	(3)
Taxation		
Corporation tax paid	(38,000)	(3)
Capital expenditure and financial investment		
Investments	(30,000)	(3)
Payments to acquire tangible fixed assets	(75,000)	(2)
Receipts from sale of fixed assets	<u>35,000</u>	(2)
	(70,000)	
Equity dividends paid		
Dividends paid during the year	(55,000)	(3)
Net cash inflow before liquid resources and financing	39,200	
Management of Liquid Resources		
Purchase of Government securities	(12,000)	(2)
Financing		
Repayment of debentures	(105,000)	(1)
Receipts from issue of shares	40,000	(1)
Receipts from share premium	<u>22,000</u>	(1)
Decrease in cash	(2)	(15800)
Reconciliation of net cash flow to movement in net debt		
Decrease in cash during period	(15,800)	(1)
Cash used to purchase Government securities	12,000	
Cash used to purchase debentures	<u>105,000</u>	(1)
Change in net debt	101,200	(1)
Net debt at 1/1/2005	<u>169,000</u>	
Net debt at 31/12 2005	<u>(67,800)</u>	(1)

Question 3 – continued.

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- (b) To show the cash inflows and outflows during the past year
To help predict future cash flows
To help financial planning
To provide information to assess liquidity
To show that profits do not equal cash
To comply with legal requirements

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- (c) **Non-cash expense** Depreciation, increase in provision for bad debts
Non-cash gain Reduction in provision for bad debts, profit on sale of assets

Workings

Depreciation

Depreciation on machinery for year	60,000	
Depreciation on buildings for year	<u>15,000</u>	
<i>Total depreciation for year</i>		75,000

Profit/ Loss on disposal of fixed assets

Amount received for machine	35,000	
Cost of machine disposed	70,000	
Depreciation on disposed machine [180,000 + 60,000 – 202,000]	<u>38,000</u>	
Book value	(32,000)	
Profit on sale of machinery		3,000

Dividends paid

Dividends due at 31/12/2004	34,000	
Add interim dividends 2005	<u>21,000</u>	
Amount paid during 2005		55,000

Taxation

Taxation due at 31/12/2004	43,000	
Taxation for year 2005	<u>45,000</u>	
	88,000	
Less taxation due 31/12/2005	<u>(50,000)</u>	
Taxation paid		38,000

Interest

Interest for year 2005	8,000	
Less interest due 31/12/2005	<u>(1,200)</u>	
Interest paid		6,800