

**6. Cash Flow Statement**

The following are the Balance Sheets of Hayes Plc as at 31/12/2006 and 31/12/2007.

<b>Balance Sheets as at</b>	<b>31/12/2007</b>		<b>31/12/2006</b>	
<b>Fixed Assets</b>	€	€	€	€
Cost	620,000		490,000	
Less accumulated depreciation	<u>(220,000)</u>	400,000	<u>(100,000)</u>	390,000
<b>Financial Assets</b>				
Investments at cost		200,000		300,000
<b>Current Assets</b>				
Stocks	360,000		252,000	
Debtors	170,000		110,000	
Government Securities	70,000			
Cash	<u>50,000</u>		<u>70,000</u>	
	<u>650,000</u>		<u>432,000</u>	
<b>Less Creditors: amounts falling due within 1 year</b>				
Trade creditors	214,000		247,000	
Bank	20,000		34,000	
Taxation	<u>48,000</u>		<u>39,000</u>	
	<u>282,000</u>	<u>368,000</u>	<u>320,000</u>	<u>112,000</u>
		<u>968,000</u>		<u>802,000</u>
<b>Financed by</b>				
<b>Creditors: amounts falling due after more than one year</b>				
10% Debentures		170,000		120,000
<b>Capital and Reserves</b>				
Ordinary shares @ €1 each	290,000		230,000	
Share premium	18,000		-----	
Profit and Loss account	<u>490,000</u>	<u>798,000</u>	<u>452,000</u>	<u>682,000</u>
		<u>968,000</u>		<u>802,000</u>

The following information is also available:

- (i) 60,000 shares were issued at €1.30 per share.
- (ii) Fixed assets, which cost €60,000 and on which total depreciation of €30,000 had been provided, were sold for €40,000.
- (iii) €50,000 Debentures were issued on 1/1/2007.
- (iv) Dividends paid during the year amounted to €54,000.
- (v) Taxation charge on profits for year 2007 was €60,000.
- (vi) Investments which cost €100,000 were sold for cash at their book value.

**You are required to:**

- (a) (i) Prepare an Abridged Profit & Loss account to ascertain the operating profit for the year ending 31/12/2007 (85)
- (ii) Prepare the Cash Flow statement for Hayes Plc for the year ending 31/12/2007, including Reconciliation statements.
- (b) (i) Explain why earning profit does not always result in a corresponding increase in cash balances.
- (ii) Write a note on the Accounting Standards Board. In your answer refer to the main activity of the Board and how it has influenced the preparation of Cash Flow statements. (15)

**(100 marks)**