Question 6

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Abridged Profit and Loss account for the year ending 31/12/2007

	€	
Operating profit	169,000	
Less interest	(17,000)	[3]
Profit before tax	152,000	
Taxation	(60,000)	[3]
Profit after tax	92,000	
Dividends paid	(54,000)	[3]
Retained profit	38,000	
Profit and loss balance 1/1/2007	452,000	[3]
Profit and loss balance 31/12/2007	490,000	[3]

Reconciliation of operating profit to net cash flow from operating activities

		€	
Operating profit		169,000	[1]
Depreciation charge for the year	W 1	150,000	[5]
Profit on sale of fixed assets	W 2	(10,000)	[5]
Increase in stock		(108,000)	[3]
Increase in debtors		(60,000)	[3]
Decrease in creditors		(33,000)	[3]
Net cash inflow from operating activities		108,000	[2]

Cash Flow statement of Hayes PLC for the year ended 31/12/2007

		€		€	
Operating Activities					
Net cash inflow from operating activities				108,000	[3]
Return on Investments and Servicing of Finance [1]					
Interest paid				(17,000)	[3]
Taxation [1]					
Tax paid	W 3			(51,000)	[4]
Capital Expenditure and Financial investment [1]					
Sale of fixed assets		40,000	[3]		
Purchase of fixed assets		(190,000)	[3]		
Sale of investments		100,000	[3]	(50,000)	
Equity Dividends paid [1]					
Dividends paid				(54,000)	[3]
Net cash outflow before liquid resources and financing				(64,000)	
Management of Liquid Resources [1]					
Government securities				(70,000)	[3]
Financing [1]					
Issue of Debentures		50,000	[3]		
Issue of ordinary shares		60,000	[3]		
Share premium		18,000	[3]	128,000	
Decrease in Cash				**(6,000)**	[3]

Reconciliation of net cash to movement in net debt

	€	
Decrease in cash	(6,000)	[1]
Cash used to purchase liquid resources	70,000	[1]
Cash received from issue of debentures	(50,000)	[1]
Change in net debt	14,000	
Net debt at 1/1/2007	(84,000)	[1]
Net debt at 31/12/2007	(70,000)	[1]

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(b)

(i) [10]

Credit sales/purchases affect profit but do not affect cash.
Non-cash losses and gains affect profit but not cash.
Purchase and sale of fixed assets by cash affect cash but not profit.
Introduction or withdrawal of capital in cash affect cash but not profit.

(ii) [5]

The Accounting Standards Board issues new accounting standards called Financial Reporting Standards (FRS). It also amends and withdraws old accounting standards.

FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.
It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.

Workings

1. Depreciation	100,000 - 30,000 - 220,000	=	150,000
2. Profit on disposal	60,000 - 30,000 - 40,000	=	10,000
3. Taxation	39,000 + 60,000 - 48,000	=	51,000