

**2. Cash Flow Statement (60)**

**(a) Reconciliation of operating profit to net cash flow from operating activities (20)**

	€
Operating Profit	232,000 (2)
Depreciation charges for year (€7,000 + €36,000)	43,000 (4)
Profit on sale of machinery	(2,000)(6)
Increase in Stocks	(9,000)(2)
Increase in Debtors	(8,000)(2)
Decrease in Creditors	(17,000)(2)
Net cash Inflow from Operating Activities	<u>*239,000 (2)</u>

\* Accept correct figure only.

**(b) Cash Flow Statement of Regan plc for the year ended 31/12/2009 (28)**

	€	€
<u>Operating Activities</u>		
Net Cash Inflow from Operating Activities		*239,000 (1)
<u>Returns on Investments and Servicing of Finance</u>		
Interest paid (€14,000 – €4,400)		(9,600)(3)
<u>Taxation</u>		
Corporation tax paid		(25,000)(3)
<u>Capital Expenditure and Financial Investment</u>		
Receipts from sale of investments	17,000 (3)	
Payments to acquire tangible fixed assets	(180,000)(2)	
Receipts from sale of fixed assets	<u>32,000 (2)</u>	(131,000)
<u>Equity Dividends Paid</u>		
Dividends paid during year		<u>(39,000)(3)</u>
Net Cash Inflow before Financing		34,400
<u>Management of Liquid Resources</u>		
Purchase of Government securities		(18,000)(2)
<u>Financing</u>		
Repayment of debentures	(80,000)(1)	
Receipts from issue of shares	30,000 (1)	
Receipts from share premium	<u>19,000 (1)</u>	<u>(31,000)</u>
Decrease in Cash		<u>** (14,600)(2)</u>
<u>Reconciliation of Net Cash Flow to Movement in Net Debt</u>		
Decrease in cash during period		(14,600)(1)
Cash used to purchase Government securities		18,000
Cash used to purchase debentures		<u>80,000 (1)</u>
Change in net debt		83,400 (1)
Net debt at 1/1/2009		<u>(204,000)</u>
Net debt at 31/12/2009		<u>(120,600)(1)</u>

\* Accept student's own figure.

\*\* Accept correct figure only.

\*\*\* Alternative Cash Flow Statement on next page.



Alternative Cash Flow Statement

**Cash Flow Statement of Regan plc for the year ended 31/12/2009**

(28)

	€	€
<u>Operation Activities</u>		
Net Cash Inflow from Operating Activities		*239,000 (1)
<u>Returns on Investments and Servicing of Finance</u>		
Interest paid	(9,600)(3)	
Dividends paid during year	<u>(39,000)(3)</u>	(48,600)
<u>Taxation</u>		
Corporation Tax paid		(25,000)(3)
<u>Capital Expenditure and Financial Investment</u>		
Receipts from sale of Investments	17,000 (3)	
Payments to acquire tangible fixed assets	(180,000)(2)	
Receipts from sale of fixed assets	<u>32,000 (2)</u>	<u>(131,000)</u>
Net Cash Outflow before Financing		34,400
<u>Management of Liquid Resources</u>		
Purchase of Government securities		(18,000)(2)
<u>Financing</u>		
Repayment of debentures	(80,000)(1)	
Receipts from issue of shares	30,000 (1)	
Receipts from share premium	<u>19,000 (1)</u>	<u>(31,000)</u>
Decrease in cash		<u>** (14,600)(2)</u>
<u>Reconciliation of Net Cash Flow to Movement in Net Debt</u>		
Decrease in cash during period		(14,600)(1)
Cash used to purchase Government securities		18,000
Cash used to purchase debentures		<u>80,000 (1)</u>
Change in net debt		83,400 (1)
Net debt at 1/1/2009		<u>(204,000)</u>
Net debt at 31/12/2009		<u><u>(120,600)(1)</u></u>

\* Accept student's own figure.

\*\* Accept correct figure only.

(b) State **two** benefits to a business of preparing a Cash Flow Statement. (6)

Any 2: (2 × 3)

- 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 help assess liquidity //
- to show that profits do not equal cash //
- to comply with legal requirements // *etc.*

(c) Explain why profit does not always mean a corresponding increase in cash. (6)

Any 2: (2 × 3)

- non-cash losses and gains affect profit but not cash //
- purchase and sales of fixed assets affect cash but not profit //
- introduction or withdrawal of capital in cash affects cash but not profit //
- credit sales/purchases affect profit but do not affect cash // *etc.*