

## Question 2

48

(a)

### Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating Profit	179,000	[2]
Depreciation charge for the year	65,000	[3]
Loss on sale of machinery	10,000	[5]
Increase in Stock	(18,000)	[2]
Increase in Debtors	(8,000)	[2]
Increase in Creditors	<u>25,000</u>	[2]
Net Cash inflow from operating activities	<u>253,000</u>	[2]

### Cash flow Statement of Norris Plc for the year ended 31/12/2009

	€	€
<b>Operating activities</b>		
Net Cash Inflow from operating activities		253,000 [1]
<b>Return on investments and servicing of finance</b> [1]		
Interest paid		(13,000) [3]
<b>Taxation</b> [1]		
Corporation Tax paid		(38,000) [3]
<b>Capital expenditure and financial investment</b> [1]		
Investments	(35,000) [2]	
Payment to acquire tangible fixed assets	(75,000) [2]	
Receipts from sale of fixed assets	<u>30,000</u> [2]	(80,000)
<b>Equity dividends paid</b> [1]		
Dividends paid during the year		<u>(64,000)</u> [2]
Net Cash inflow before Liquid Resources and Financing		58,000
<b>Management of liquid resources</b> [1]		
Purchase of Government Securities		(15,000) [1]
<b>Financing</b>		
Repayment of Debentures	(80,000) [1]	
Receipt from Issue of Shares	20,000 [1]	
Receipt from Share Premium	<u>3,000</u> [1]	<u>(57,000)</u>
<b>Decrease in cash</b>		<u>(14,000)</u> [2]
<b>Reconciliation of net cash flow to movement in net debt</b>		
Decrease in Cash during the period		(14,000) [1]
Cash used to purchase liquid resources		15,000 [1]
Cash used to repurchase of debenture loan		<u>80,000</u>
Change in Net Debt		81,000
Net Debt 1/1/2009		<u>(212,000)</u> [1]
Net Debt 31/12/2009		<u>(131,000)</u> [1]

**Question 2 – continued.**

12

(b) [6]

It shows the cash inflows and outflows during the past year  
It shows that profits do not always equal cash  
It aids financial planning/ it is used to predict future cash flows  
It provides information to assess current liquidity

[6]

**Cash expense** – reduces both profit and cash e.g. wages

**Non-cash expense** – reduces profit but not cash e.g. depreciation, provision for bad debts

**Workings**

**Depreciation**

Depreciation on Machinery	55,000	
Depreciation on Buildings	<u>10,000</u>	
Depreciation for the year		65,000

**Loss on disposal of fixed assets**

Cost of machine disposed	70,000	
Depreciation on disposed machine	<u>30,000</u>	
Book value	40,000	
Less depreciation on disposal	<u>30,000</u>	
Loss on disposal		10,000

**Taxation**

Taxation due 31/12/2008	40,000	
Taxation for year 2009	<u>43,000</u>	
	83,000	
Less taxation due 31/12/2009	<u>(45,000)</u>	38,000

**Interest**

Interest for year 2009	18,000	
Less interest due 31/12/2009	<u>(5,000)</u>	13,000