

Question 7

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(a)

(i) **Abridged Profit and Loss account for the year ending 31/12/2011**

	€	
Operating profit	337,000	
Investment Income	3,000	[3]
Less debenture interest	<u>(25,000)</u>	[3]
Profit before tax	315,000	
Taxation	<u>(110,000)</u>	[3]
Profit after tax	205,000	
Dividends	<u>(40,000)</u>	[3]
Retained profit	165,000	
Profit and loss balance 01/01/2011	<u>31,000</u>	[3]
Profit and loss balance 31/12/2011	<u>196,000</u>	[3]

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

		€	
Operating profit		337,000	[2]
Depreciation charge for the year	W1	72,000	[4]
Profit on sale of buildings		(13,000)	[2]
Decrease in stock		24,000	[3]
Increase in debtors		(200,000)	[3]
Increase in creditors		<u>14,000</u>	[3]
Net cash inflow from operating activities		<u>234,000</u>	

Cash Flow statement of Danton plc for the year ended 31/12/2011

Operating Activities		€		€	
Net cash inflow from operating activities				234,000	[2]
Return on Investment and Servicing of Finance					[1]
Investment income received		2,000	[3]		
Interest on debentures paid		<u>(30,000)</u>	[3]	(28,000)	
Taxation					[1]
Tax paid	W3			(45,000)	[3]
Capital expenditure and financial investment					[1]
Receipts from sale of buildings	W4	101,000	[5]		
Payments to acquire buildings	W5	(160,000)	[5]		
Payments to acquire machinery	W6	<u>(119,000)</u>	[4]	(178,000)	
Equity dividends paid					[1]
Dividends paid				<u>(40,000)</u>	[3]
Net cash outflow before liquid resources and financing				(57,000)	
Management of liquid resources					[1]
Purchase of government securities				(60,000)	[3]
Financing					[1]
Repayment of debentures		(50,000)	[3]		
Receipts from the issue of ordinary shares		200,000	[2]		
Receipts from share premium		<u>20,000</u>	[2]	170,000	
Increase in Cash				<u>53,000</u>	[4]

Reconciliation of net cash to movement in net debt

	€	
Increase in cash	53,000	[1]
Cash used to purchase liquid resources	60,000	[1]
Repurchase of debentures	<u>50,000</u>	[1]
Change in net debt	163,000	
Net debt at 01/01/2011	<u>(228,000)</u>	[1]
Net debt at 31/1/2/2011	<u>(65,000)</u>	[1]

Workings

1. Depreciation	$225,000 - 165,000 + 12,000$	=	72,000
2. Investment income	$2000 + 3000 - 3000$	=	2,000
3. Taxation	$110,000 + 45,000 - 110,000$	=	45,000
4. Sale of buildings	$90,000 + 13,000 - 2,000(\text{dep})$	=	101,000
Depreciation on disposed building	$110,000 + 12,000 - 120,000$	=	2,000
5. Purchase of buildings	$850,000 - [780,000 - 90,000]$	=	160,000
6. Purchase of machinery	$349,000 - 230,000$	=	119,000

(b)

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(i)

Danton plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €337,000 was made but the increase in cash for the year was €53,000.

Reasons:

Credit sales earn profit but do not increase cash. Debtors increased by €200,000

Non-cash gains/losses increase/decrease profit but not cash. Profit on sale of buildings/ depreciation €13,000/€72,000.

Sale/Purchase of fixed assets Increase/decrease cash but not profit. Receipts €101,000, Payments €160,000 and €119,000

Introduction/withdrawal of capital increases/decreases cash but not profit. Receipts €220,000, payments €50,000

(ii) **Responsibility of Directors**

To comply with the Companies Acts

To keep proper accounting records enabling financial statements to be prepared

Prepare annual financial statements

Select suitable accounting policies

Sign financial statements

Safeguard the assets of the company

Publish Final Accounts and Cash Flow Statement at least once a year

Present an Annual Report to shareholders at AGM to include:

 Directors' report

 Auditor's Report

 Financial Statements