

3. Cash Flow Statement (60)

(a) Reconciliation of operating profit to net cash flow from operating activities (18)

		€	
Operating Profit		182,000	(2)
Depreciation charge for the year	(W1)	*80,000	(3)
Loss on sale of machinery	(W2)	*3,000	(5)
Increase in Stock		*(70,000)	(2)
Increase in Debtors		*(45,000)	(2)
Increase in Creditors		*10,000	(2)
Net Cash Inflow from Operating Activities		**160,000	(2)

* Allow 1m for correct words.

** Accept correct figure only.

Cash Flow Statement of Agnew plc for year ended 31/12/2013 (30)

		€	
<u>Operating Activities</u>			
Net Cash Inflow from Operating Activities		*160,000	(1)
<u>Returns on Investments and Servicing of Finance (1)</u>			
Interest paid	(W3)	(5,000)	(3)
<u>Taxation (1)</u>			
Corporation tax paid	(W4)	(17,000)	(3)
<u>Capital Expenditure and Financial Investment (1)</u>			
Receipts from sale of investments		(35,000)	(2)
Payments to acquire tangible fixed assets		(90,000)	(2)
Receipts from sale of fixed assets		42,000	(2)
		(83,000)	
<u>Equity Dividends Paid (1)</u>			
Dividends paid during the year		(48,000)	(2)
Net Cash Inflow before Liquid Resources and Financing		7,000	
<u>Management of Liquid Resources (1)</u>			
Purchase of Government securities		(25,000)	(1)
<u>Financing</u>			
Repayment of debentures		(70,000)	(1)
Receipts from issue of shares		40,000	(1)
Receipts from share premium		18,000	(1)
Decrease in Cash		**(30,000)	(2)
<u>Reconciliation of Net Cash Flow to Movement in Net Debt</u>			
Decrease in Cash during the period		*(30,000)	(1)
Cash used to purchase liquid resources		25,000	(1)
Cash used to repurchase of debenture loan		70,000	
Change in net debt		65,000	
Net debt at 1/1/2013		(210,000)	(1)
Net debt at 31/12/2013		(145,000)	(1)

* Allow full marks for student's own figure if consistent with previous work.

** Accept correct figure only.

Workings:		€			€
W1	Depreciation charge for the year		W3	Interest paid	
	Machinery	65,000		Interest for the year	12,000
	Buildings (€70,000 – €55,000)	15,000		– Interest due at 31/12/2013	7,000
	Total depreciation charge for year	80,000		Total interest paid	5,000
W2	Sale of Machinery		W4	Taxation paid	
	Cost of Machinery sold	80,000		Taxation due 1/1/2013	30,000
	– Acc. Dep. (€65,000 – €30,000)	(35,000)		+ Taxation for the year	42,000
	Book value on date of sale	45,000			72,000
	– Receipts for disposal of Machinery	(42,000)		– Taxation due 31/12/2013	(55,000)
	Loss on Sale of Machinery	3,000		Total taxation paid	17,000

(b) (i) Outline the benefits of preparing a Cash Flow Statement. (12)

Any 2: (2 × 3)

- to show the cash inflows and outflows (2) during the past year (1) //
- to help financial (1) planning (2) / to help predict future cash flows //
- to provide information to help assess current (1) liquidity (2) //
- to show that profits do not always (1) equal cash (2) // *etc.*

* Allow 1m for ‘to comply with company legislation’.

** Accept other appropriate answers.

** Figures in brackets show breakdown of marks if answer incomplete.

(ii) Distinguish between a ‘cash gain’ and a ‘non-cash gain’, giving **one** example of each.

❶ Cash gain

Definition (2)

- gain which increases both profits and cash

Example

Any 1: (1)

- investment income //
- rental income //
- discount received // *etc.*

** Accept other appropriate answers.

❷ Non-cash gain

Definition (2)

- gain which increases profits but not cash

Example

Any 1: (1)

- profit on the sale of a fixed asset //
- reduction in the provision for bad debts //
- patents written off // *etc.*

** Accept other appropriate answers.