

Question 6

88

Abridged Profit and Loss account for the year ending 31/12/2014		€	
Operating profit		143,000	[3]
Less interest		<u>(18,000)</u>	[3]
Profit before tax		125,000	
Taxation		<u>(65,000)</u>	[3]
Profit after tax		60,000	
Dividends		<u>(55,000)</u>	[3]
Retained profit		5,000	
Profit and loss balance 1/1/2014		<u>356,500</u>	[3]
Profit and loss balance 31/12/2014		<u>361,500</u>	[3]

Reconciliation of operating profit to net cash flow from operating activities

		€	
Operating profit		143,000	[2]
Depreciation charge for the year	W 1	145,000	[4]
Profit on sale of fixed assets	W 2	(5,000)	[2]
Increase in provision for bad debts	W 3	3,000	[3]
Increase in stock		(55,000)	[3]
Increase in debtors		(60,000)	[3]
Decrease in creditors		<u>(33,000)</u>	[3]
Net cash inflow from operating activities		<u>138,000</u>	

Cash Flow Statement of Quig plc for the year ended 31/12/2014

Operating Activities		€	€	
Net cash inflow from operating activities			138,000	[2]
Return on Investment and Servicing of Finance [1]				
Interest paid			(18,000)	[3]
Taxation [1]				
Tax paid	W 4		(57,000)	[3]
Capital Expenditure and Financial Investment [1]				
Sale of fixed assets		30,000		[5]
Purchase of fixed assets	W 5	(220,000)		[5]
Sale of investments		<u>100,000</u>		[4]
Equity Dividends paid [1]				
Dividends paid			<u>(55,000)</u>	[3]
Net cash outflow before liquid resources and financing			(82,000)	
Management of Liquid Resources [1]				
Government securities			(56,000)	[3]
Financing [1]				
Issue of debentures		50,000		[3]
Issue of ordinary shares		60,000		[2]
Share premium		<u>15,000</u>		[2]
Decrease in Cash			<u>(13,000)</u>	[5]

Reconciliation of net cash to movement in net debt	€
Decrease in cash	(13,000)
Cash used to purchase liquid resources	56,000 [1]
Cash received from issue of debentures	<u>(50,000) [1]</u>
Change in net debt	(7,000)
Net debt at 1/1/2014	<u>(101,000) [1]</u>
Net debt at 31/1/2/2014	<u>(108,000) [1]</u>

12

- (b) (i) **Purposes of Cash Flow Statements** [8]
- To show that profits do not always equal cash
 - 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 assess liquidity/solvency
 - To comply with legal requirements
 - To aid application for loans
- (ii) **Explain decline in Company's cash balance in 2014** [4]
- Purchase of fixed assets reduced cash by €220,000 but did not reduce profit.
 - Purchase of Government securities reduced cash by €56,000 but did not reduce profit
 - Payment of dividends €55,000 and tax €57,000 reduced cash by €112,000 but did not reduce profit
 - Increase in stock, debtors and decrease in creditors reduced cash by €148,000 but didn't reduce profit

Question 6 – Workings

W 1 - Depreciation

Depreciation provision on fixed assets 1/1/2014	80,000
Less Depreciation on disposed 55,000	<u>(25,000)</u>
Add Depreciation charge for the year	<u>145,000</u>
Depreciation provision on fixed assets on 31/12/2014	<u>200,000</u>

W 2 - Profit on disposal of fixed assets

Cost of asset disposed	50,000
Less Depreciation on disposed asset	<u>(25,000)</u>
Book value of asset	25,000
Less receipts from sale	<u>30,000</u>
Profit on disposal	<u>5,000</u>

W 3 - Provision for Bad Debts

Increase in BDP [8,500 – 5,500]	=	3,000
---------------------------------	---	-------

W 4 - Taxation

Taxation due 31/12/2013	47,000
Taxation for year 2014	<u>65,000</u>
	112,000
Less taxation due 31/12/2014	<u>(55,000)</u>
Tax paid	<u>57,000</u>

W 5 - Fixed assets	640,000 – [470,000 – 50,000]	=	220,000
---------------------------	------------------------------	---	---------