Question 2 – Cash Flow Statement

(a)

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Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating profit	157,000	**[2]**
Deprecation charge for the year	64,000	**[3]**
Loss on sale of fixed assets	15,000	**[2]**
Increase in stock	(7,000)	**[3]**
Increase in debtors	(13,000)	**[3]**
Decrease in creditors	(30,000)	**[3]**
Net cash inflow from operating activities	186,000	**[2]**

Cash Flow Statement of Grant plc for the year ended 31/12/2016

		€		€	
Operating Activities					
Net cash inflow from operating activities				186,000	
Return on Investment and Servicing of Finance					
Interest paid		(12,600)	**[2]**		
Interest received		2,100	**[2]**	(10,500)	
Taxation					
Corporation tax paid				(53,000)	**[2]**
Capital Expenditure and Financial Investment	**[1]**				
Sale of investments		205,000	**[2]**		
Sale of buildings		73,000	**[2]**		
Purchase of machinery		(80,000)	**[2]**		
Purchase of buildings		(200,000)	**[2]**	(2,000)	
Equity Dividends Paid	**[1]**				
Equity dividends Paid				(32,000)	**[1]**
Net cash inflow before liquid resources and financing				88,500	**[2]**
Management of Liquid Resources	**[1]**				
Purchase of government securities				(40,000)	**[1]**
Financing	**[1]**				
Repayment of debentures		(170,000)	**[1]**		
Receipts from issue of ordinary shares		120,000	**[1]**		
Receipts from share premium		7,000	**[1]**	(43,000)	
Increase in cash				**5,500**	**[4]**

Reconciliation of net cash to movement in net debt	€	
Increase in cash	5,500	**[1]**
Cash used to purchase liquid resources	40,000	**[1]**
Cash used to repay debentures	170,000	**[1]**
Change in net debt	215,500	
Net debt 01/01/2016	(360,000)	**[1]**
Net debt 31/12/2016	(144,500)	**[1]**

(b) **8**

(i) **Solvency** is the ability of the company to pay all its debts as they fall due for payment (long term). A firm is solvent if total assets are greater than total external liabilities.

(ii) A **Financial Reporting Standard** is a rule that must be applied to all financial statements in order to give a true and fair view of the company's financial position. It sets out best practice in accounting that allows accounts to be compared from year to year and from company to company.

(iii) **Implications of reduced gearing**.

1. Low interest repayments increase the amount of profits available for investment elsewhere in the business.
2. Shareholders are more likely to get a dividend when gearing is low.
3. The business has greater financial stability as it is less affected by rises in interest rates.
4. The business should find it easier to raise additional loan finance.

Workings

Cost of disposed building	635,000 + 200,000 – 720,000	=	115,000
Dep. to date on disposed building	60,000 + 42,000 – 75,000	=	27,000
Cash received from disposed building	115,000 – 27,000 – 15,000	=	73,000
Depreciation	42,000 + 22,000	=	64,000
Taxation paid	44,000 + 45,000 – 36,000	=	53,000
Interest paid	12,000 + 3,400 – 2,800	=	12,600
Interest received	2,000 + 400 – 300	=	2,100