

## Q.7 Cash Flow Statement

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(a) (i)

### Abridged Profit and Loss Account of Jackson plc for the year ending 31/12/2018

	€	
1. Operating profit	79,750	[1]
2. Investment income	2,400	[3]
3. Debenture interest	<u>(7,200)</u>	[3]
4. Profit before tax	74,950	
5. Taxation	<u>(51,000)</u>	[2]
6. Profit after tax	23,950	
7. Dividends	<u>(30,600)</u>	[3]
8. Retained profit	(6,650)	
9. Profit and loss balance 01/01/2018	<u>42,250</u>	[3]
10. Profit and loss balance 31/12/2018	<u>35,600</u>	[3]

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

	€	
Operating profit	79,750	[1]
Depreciation charge for the year	72,000	[1]
Loss on sale of fixed assets	1,700	[2]
Increase in bad debts provision	400	[2]
Goodwill written off	11,000	[2]
Increase in stock	(18,500)	[3]
Decrease in debtors	2,000	[3]
Decrease in creditors	<u>(8,000)</u>	[3]
Net cash inflow from operating activities	<u>140,350</u>	

(ii) **Cash Flow statement of Jackson plc for the year ended 31/12/2018**

	€	€
<b>Operating Activities</b>		
Net cash inflow from operating activities		140,350 [2]
<b>Return on Investment and Servicing of Finance [1]</b>		
Interest paid	(7,800) [4]	
Investment income	<u>2,100</u> [4]	(5,700)
<b>Taxation [1]</b>		
Corporation tax paid		(47,200) [4]
<b>Capital expenditure and financial investment [1]</b>		
Receipts from sale of fixed assets	41,300 [3]	
Payments to acquire tangible fixed assets	<u>(170,000)</u> [5]	(128,700)
<b>Equity Dividends paid [1]</b>		
Equity dividends paid		<u>(30,600)</u> [3]
<b>Net cash outflow before liquid resources and financing</b>		(71,850) [2]
<b>Management of Liquid resources [1]</b>		
Purchase of government securities		(27,000) [3]
<b>Financing [1]</b>		
Issue of debentures	40,000 [3]	
Receipts from share issue	60,000 [3]	
Receipts from share premium	<u>12,000</u> [2]	<u>112,000</u>
Increase in cash		<u>13,150</u> [4]

**Reconciliation of net cash to movement in net debt**

	€	
Increase in cash	13,150	[1]
Cash received from debentures	(40,000)	[1]
Cash used to purchase liquid resources	<u>27,000</u>	[1]
Change in net debt	150	
Net debt 01/01/2018	<u>(104,150)</u>	[1]
Net debt 31/12/2018	<u>(104,000)</u>	[1]

**(b)**

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- (i) Non-cash items are items in the profit and loss account that affect the net profit, but they do not affect the cash situation.

E.g. depreciation €72,000, increase in bad debt provision € 400, goodwill written off €11,000, loss on sale of fixed asset €1,700.

- (ii) The purchase of fixed assets decreases cash but does not affect profit.

Or

The sale of fixed assets increases cash but does not affect profit.

The introduction of capital increases cash but not profit.

Or

Drawings reduce cash but has no effect on profit.

Loans received or repaid can also be used as an example, as can investments bought or sold.