

6. Cash Flow Statement

(100)

The following are the Balance Sheets of Craft plc as at 31/12/2017 and 31/12/2018.

Balance Sheet as at	31/12/2018		31/12/2017	
	€	€	€	€
Fixed Assets				
Cost	725,000		550,000	
Less accumulated depreciation	(170,000)	555,000	(90,000)	460,000
Financial Assets				
Quoted Investments at cost		100,000		150,000
Current Assets				
Stock	360,000		305,000	
Debtors	180,000		120,000	
Less Provision for Bad Debts	(9,000)		(6,000)	
Government Securities	46,000		25,000	
Cash	12,000		18,500	
Investment Income due	1,000		—	
	590,000		462,500	
Less Creditors: amounts falling due within 1 year				
Trade Creditors	185,000		222,000	
Bank	31,000		45,000	
Taxation	60,000		65,000	
Interest due	16,000		12,000	
	(292,000)		(344,000)	
Net Current Assets		298,000		118,500
		953,000		728,500
Financed by				
Creditors: amounts falling due after more than 1 year				
8% Debentures		200,000		150,000
Capital and Reserves				
Ordinary Shares @ €1 each	500,000		400,000	
Share Premium	20,000		—	
Profit and Loss account	233,000	753,000	178,500	578,500
		953,000		728,500

The following information is also available for the year 2018:

- Fixed assets, which cost €60,000 and on which total depreciation of €26,000 had been provided, were sold for €41,000.
- The quoted investments yield a fixed return of 4% per annum.
- Investments which cost €50,000 were sold for cash at their book value on 30/06/2018.
- Taxation charge on profits for the year 2018 was €75,000.
- €50,000 Debentures were issued on 01/04/2018.
- 100,000 shares were issued at €1.20 per share.
- Dividends paid during the year amounted to €60,000.

6. Cash Flow Statement (cont'd.)

- (a) (i) Prepare an Abridged Profit and Loss Account to ascertain the operating profit for the year ending 31/12/2018.
(ii) Prepare the Cash Flow Statement of Craft plc for the year ending 31/12/2018, including Reconciliation Statements.

**Abridged Profit and Loss Account
for the year ended 31/12/2018**

		€
Operating Profit		••199,500 (2)
Investment Income (1)▪	W1	5,000 (2)
Interest for the year (1)▪	W2	(15,000)(2)
Profit before Taxation		189,500
Taxation (1)▪		(75,000)(2)
Profit after Taxation		114,500
Dividends (1)▪		(60,000)(2)
Retained profits for the year		54,500
Profit and Loss balance 01/01/2018 (1)▪		178,500 (1)
Profit and Loss balance 31/12/2018 (1)▪		<u>233,000 (1)</u>

(18)

- Accept correct figure only.
- Allow 1 mark for correct word(s) even if figure is incorrect or omitted.

**Reconciliation of Operating Profit to Net Cash Inflow
from Operating Activities**

		€
Operating Profit		••199,500 (1)
Depreciation charge for the year (1)▪	W3	106,000 (2)
Profit on disposal of Fixed Assets (1)▪	W4	(7,000)(2)
Increase in Provision for Bad Debts (1)▪	W5	3,000 (2)
Increase in Stock (1)▪		(55,000)(2)
Increase in Debtors (1)▪		(60,000)(2)
Decrease in Creditors (1)▪		(37,000)(2)
Net Cash Inflow from Operating Activities		<u>••149,500 (1)</u>

(20)

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct figure only.
- Allow 1 mark for correct word(s) even if figure is incorrect or omitted.

Workings:

	€		€
W1 Investment Income		W3 Depreciation charge for the year	
[4% of €150,000 × 6/12]	3,000 (1)	Accum. depreciation 01/01/2018	90,000
[4% of €100,000 × 6/12]	2,000 (1)	– Depreciation on disposed assets	<u>(26,000)</u>
Figure transferred to abridged P & L a/c	<u>5,000</u>	Accum. deprec. on remaining assets	64,000
Investment Income payable	•5,000 (2)	Accum. depreciation 31/12/2018	170,000 (1)
– Investment Income due 31/12/2018	<u>(1,000)(2)</u>	– Accum. deprec. on remaining assets	<u>•(64,000)(1)</u>
Rec'd. to date (Cash Flow Statement)	4,000	Depreciation charge for the year	106,000
W2 Debenture Interest		W4 Sale of Fixed Assets	
[8% of €150,000 × 12/12]	12,000 (1)	Cost of disposed assets	60,000
[8% of €50,000 × 9/12]	<u>3,000 (1)</u>	– Accum. depreciation on assets	<u>(26,000)(1)</u>
Figure transferred to abridged P & L a/c	15,000	Book value of disposed assets	34,000
Debenture Interest due 01/01/2018	12,000 (2)	– Receipts from sale of assets	<u>(41,000)(1)</u>
+ Debenture Interest payable	•15,000 (1)	Profit on disposal of Fixed Assets	7,000
– Debenture Interest due 31/12/2018	<u>(16,000)(1)</u>	W5 Provision for Bad Debts	
Paid to date (Cash Flow Statement)	11,000	New Provision 31/12/2018	9,000 (1)
		– Old Provision 01/01/2018	<u>(6,000)(1)</u>
		Increase in Provision for Bad Debts	3,000

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

6. Cash Flow Statement (cont'd.)

(a) (cont'd.)

Cash Flow Statement (of Craft plc)
for the year ended 31/12/2018

(45)

	€	€
<u>Operating Activities</u>		
Net Cash Inflow from Operating Activities		•149,500 (2)
<u>Return on Investments and Servicing of Finance (1)</u>		
Investment Income received	W1 4,000 (4)	
Interest on debentures paid	W2 (11,000)(4)	(7,000)
<u>Taxation (1)</u>		
Taxation paid	W6	(80,000)(4)
<u>Capital Expenditure and Financial Investment (1)</u>		
Receipts from the sale of fixed assets	41,000 (3)	
Payments to acquire fixed assets	W7 (235,000)(5)	
Receipts from the sale of investments	50,000 (3)	(144,000)
<u>Equity Dividends Paid (1)</u>		
Dividends paid		(60,000)(2)
Net Cash Outflow before Liquid Resources and Financing		(141,500)
<u>Management of Liquid Resources (1)</u>		
Purchase of Government Securities	W8	(21,000)(3)
<u>Financing (1)</u>		
Receipts from the issue of debentures	50,000 (2)	
Receipts from the issue of ordinary shares	100,000 (2)	
Receipts from share premium	20,000 (2)	170,000
Increase in Cash		••7,500 (3)

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct word(s) with correct figure only.
- ** No penalty for headings out of sequence.
- ** Penalise 1 mark for each item under the incorrect heading, up to a maximum deduction of -4.

Reconciliation of Net Cash Flow
to Movement in Net Debt

(5)

	€
Increase in cash during the period	•7,500 (1)
Cash used to purchase liquid resources	21,000 (1)
Cash received from the issue of debentures	(50,000)(1)
Change in Net Debt	(21,500)
Net Debt at 01/01/2018	W9 (151,500)(1)
Net Debt at 31/12/2018	W10 ••(173,000)(1)

- Allow full marks for student's own figure if consistent with previous work.
- Accept correct word(s) with correct figure only.

6. Cash Flow Statement (cont'd.)

(a) (cont'd.)

Workings:		€		€
W6	Taxation paid		W9	Net Debt 01/01/2018
	Taxation due 01/01/2018	65,000 (2)		Debtures
	+ Taxation charge for the year	75,000 (1)		+ Bank Overdraft
		<u>140,000</u>		
	– Taxation due 31/12/2018	(60,000)(1)		– Cash
	Paid to date (Cash Flow Statement)	80,000		– Government Securities
				Net Debt 01/01/2018
				<u>151,500 (1)</u>
W7	Purchase of Fixed Assets		W10	Net Debt 31/12/2018
	Cost of Fixed Assets 01/01/2018	550,000 (1)		Debtures
	– Cost of disposed assets	(60,000)(1)		+ Bank Overdraft
	Cost of remaining assets	<u>490,000</u>		
				<u>231,000</u>
	Cost of Fixed Assets 31/12/2018	725,000 (2)		– Cash
	– Cost of remaining assets	(490,000)(1)		– Government Securities
	Purchase of additional Fixed Assets	235,000		Net Debt 31/12/2018
				<u>173,000 (1)</u>
W8	Government Securities			
	Value of securities 31/12/2018	46,000 (1)		
	– Value of securities 01/01/2018	(25,000)(2)		
	Purchase of additional Securities	<u>21,000</u>		

(b) (i) Outline the purposes of Cash Flow Statements. (4)

Any 2: (2 × 2)

- to show that profits do not always (1) equal cash (1) //
- to show the cash inflows and outflows (1) during the past year (1) //
- to help financial (1) planning (1) / to help predict future (1) cash flows (1) //
- to provide information to help assess current (1) liquidity / solvency (1) //
- to aid applications (1) for loans and/or grants (1) // etc.

* Allow 1m for 'to comply with company legislation'.

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

** Accept student's own wording if equivalent meaning conveyed.

** Accept other appropriate answers.

(ii) Outline two responsibilities of the directors of a plc. (4)

Any 2: (2 × 2)

- to comply with the Companies Acts //
- to keep proper accounting records enabling financial statements to be prepared //
- to prepare annual financial statements //
- to ensure that all financial statements are signed off by two directors //
- to select suitable accounting policies //
- to safeguard the assets of the company //
- to publish Final Accounts and Cash Flow Statement at least once a year //
- to present an Annual Report to shareholders at the AGM to include:
(1) Directors' Report, (2) Auditor's Report, (3) Financial Statements // etc.

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

** Accept student's own wording if equivalent meaning conveyed.

** Accept other appropriate answers.

6. Cash Flow Statement (cont'd.)

(b) (cont'd.)

(iii) State **two** items of information that must be included in a Directors' Report. (4)

Any 2: (2 × 2)

- recommended dividend for payment //
- amounts to be transferred to reserves //
- a report of any changes in the nature of the company's business during the financial year //
- a fair review of how the business has developed during the year and of its financial position at the end of the year //
- the principal activities of the company and any changes therein //
- particulars of any important event affecting the company which has occurred since the end of the financial year //
- any likely future developments in the business //
- an indication of activities in the field of research and development //
- significant changes in fixed assets //
- details of any dealing in its own shares by the company during the year //
- details of directors' shareholdings and dealings during the year //
- an evaluation of the company's compliance with its safety statement //
- a list of all the company's subsidiaries and affiliates // *etc.*

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

** Accept student's own wording if equivalent meaning conveyed.

** Accept other appropriate answers.