Cashflow Statements

Theory

State Exams

QUESTIONS

1. Explain what is meant by a non-cash item. Give three examples, using the figures provided.
2. Explain two items that affect cash but not profit.

2019

3. Cash flow statements are useful in assessing solvency. Explain the underlined term.
4. Financial Reporting Standard 1 requires companies to prepare a cash flow statement. What is a Financial Reporting Standard?
5. Grant plc has reduced its gearing significantly between 2015 and 2016. What are the implications of this change?

2017

6. Outline the purposes of cash flow statements.
7. Explain, why having earned a profit during 2014, the company's cash balance declined.

2015

8. Explain the reasons why Doyle plc, who has an operating profit of €185,000, has generated a greater net cash inflow from operating activities. (6)
9. List three accounting obligations of a large public company under the Companies Act.(3)

2014

10. Explain why earning profit does not always result in a corresponding increase in cash balances. Use figures from this question to support your answer.
11. Outline two responsibilities of the Directors of a plc.

2012

12. Outline the benefits of preparing a Cash Flow Statement (6)
13. Distinguish between a cash expense and a non-cash expense (6)

2010

14. Explain why earning profit does not always result in a corresponding increase in cash balances (10)
15. Write a note on the Accounting Standards Board. In your answer refer to the main activity of the Board and how it has influenced the preparation of Cash Flow statements (5)

2008

16. Explain why Cash Flow Statements are prepared. (8)
17. Identify a Non Cash expense and a Non Cash gain. (4)

2006

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2019

Explain what is meant by a non-cash item. Give three examples, using the figures provided.

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

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

Explain two items that affect cash but not profit.

1. The purchase of fixed assets decreases cash but does not affect profit.
2. The sale of fixed assets increases cash but does not affect profit. The introduction of capital increases cash but not profit.
3. 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.

2017

Cash flow statements are useful in assessing <u>solvency</u>. Explain the underlined term.

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.

Financial Reporting Standard 1 requires companies to prepare a cash flow statement. What is a Financial Reporting Standard?

A Financial Reporting Standard is

1. 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.
2. It sets out best practice in accounting that allows accounts to be compared from year to year and from company to company.

Grant plc has reduced its gearing significantly between 2015 and 2016. What are the implications of this change?

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.

2015

Outline the purposes of cash flow statements.

1. To show that profits do not always equal cash
2. To show the cash inflows and outflows during the past year
3. To help predict future cash flows
4. To help financial planning
5. To provide information to assess liquidity/solvency
6. To comply with legal requirements
7. To aid application for loans

Explain, why having earned a profit during 2014, the company's cash balance declined.

1. Purchase of fixed assets reduced cash by €220,000 but did not reduce profit.
2. Purchase of Government securities reduced cash by €56,000 but did not reduce profit
3. Payment of dividends €55,000 and tax €57,000 reduced cash by €112,000 but did not reduce profit
4. Increase in stock, debtors and decrease in creditors reduced cash by €148,000 but didn't reduce profit

2014

Explain the reasons why Doyle plc, who has an operating profit of €185,000, has generated a greater net cash inflow from operating activities. (6)

Doyle plc has generated €59,000 [€244,000 - €185,000] more cash inflow during the year because:

1. Depreciation €60,000 and loss on sale of machinery €25,000 reduce profit but had no effect on cash inflow.
2. An increase in creditors during the year increases cash inflow by €5,000 but has nil effect on profit.
3. The increase in debtors and stock during the year of €8,000 and €23,000 respectively also contributed to a reduction in net cash inflow but have no effect on profits.

List three accounting obligations of a large public company under the Companies Act. (3)

1. Provide a full set of accounts, balance sheet and a cash flow statement to shareholders at AGM
2. File/register a full set of accounts and balance sheet with the registrar of companies
3. Provide explanatory notes to these accounts
4. Must have its accounts audited
5. They must also present an annual report to the company shareholders at its AGM. This report should include a director's report, an auditor's report as well as the published accounts.

2012

Explain why earning profit does not always result in a corresponding increase in cash balances. Use figures from this question to support your answer.

Reasons:

1. Credit sales earn profit but do not increase cash. Debtors increased by €200,000
2. Non-cash gains/losses increase/decrease profit but not cash. Profit on sale of buildings/ depreciation €13,000/€72,000.
3. Sale/Purchase of fixed assets Increase/decrease cash but not profit. Receipts €101,000, Payments €160,000 and €119,000

4. Introduction/withdrawal of capital increases/decreases cash but not profit. Receipts €220,000, payments €50,000

Outline two responsibilities of the Directors of a plc.

1. To comply with the Companies Acts
2. To keep proper accounting records enabling financial statements to be prepared
3. Prepare annual financial statements
4. Select suitable accounting policies
5. Sign financial statements
6. Safeguard the assets of the company
7. Publish Final Accounts and Cash Flow Statement at least once a year
8. Present an Annual Report to shareholders at AGM to include:
   a. Directors' report
   b. Auditor's Report
   c. Financial Statements

2010

Outline the benefits of preparing a Cash Flow Statement (6)

1. It shows the cash inflows and outflows during the past year
2. It shows that profits do not always equal cash
3. It aids financial planning/ it is used to predict future cash flows
4. It provides information to assess current liquidity

Distinguish between a cash expense and a non-cash expense (6)

Cash expense	reduces both profit and cash e.g. wages
Non-cash expense	reduces profit but not cash e.g. depreciation, provision for bad debts

2008

Explain why earning profit does not always result in a corresponding increase in cash balances (10)

1. Credit sales/purchases affect profit but do not affect cash.
2. Non-cash losses and gains affect profit but not cash.

3. Purchase and sale of fixed assets by cash affect cash but not profit.
4. Introduction or withdrawal of capital in cash affect cash but not profit.

Write a note on the Accounting Standards Board. In your answer refer to the main activity of the Board and how it has influenced the preparation of Cash Flow statements (5)

Reporting Standards (FRS).

1. It also amends and withdraws old accounting standards. FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.
2. It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.

2006

Explain why Cash Flow Statements are prepared. (8)

1. To show the cash inflows and outflows during the past year
2. To help predict future cash flows
3. To help financial planning
4. To provide information to assess liquidity
5. To show that profits do not equal cash
6. To comply with legal requirements

Identify a Non Cash expense and a Non Cash gain (4)

Non-cash expense	Depreciation, increase in provision for bad debts
Non-cash gain	Reduction in provision for bad debts, profit on sale of assets