
Cashflow Statements

Step by Step approach

Jackson Plc 100 marks

Please complete the following steps before you start to answer part (a) and (b)

Part 1

Calculate the following figures

1. The dividends paid this year
2. The debenture interest paid for this year
3. The investment income to be received for this year

Part 2

Complete the following steps (using the templates to calculate the correct figures)

- | | |
|--------|--|
| Step 1 | Calculate the change in the net cash and net debt |
| Step 2 | Calculate the amount of dividends, Taxation, Interest Paid and Investment Income |
| Step 3 | Calculate the adjustment for Debtors, Stock and Creditors |
| Step 4 | Calculate the change in Fixed Assets (Inc Dep) |
| Step 5 | Calculate the changes in the capital structure of the firm |

Part 3

Calculate the following statements (using the templates to calculate the correct figures)

1. Abridge profit and loss account
2. Reconcile of operating profit to net cash flow from operating activities
3. Cashflow
4. Reconciliation of net cash flow to movement in net debt

These will include part (a) and part (b)

Part 4

There will be some theory part to the question

Part 1

Calculate the following figures

1. The dividends paid this year
2. The debenture interest paid for this year
3. The investment income to be received for this year

The dividends paid this year

We need to calculate this figure, which will be used in the abridge profit and loss statement. To calculate the dividend paid for this year you need to look at the additional information and it will tell you how much the dividend is per share for this year

'The total dividend paid for the year was 6c per share.'

We then need to find out how many ordinary shares have been issued. This will be given in the balance sheet. Remember to use this year column 31/12/2018. This figure is €510,000 (Ordinary shares @ €1 each)

€510,000 x .06 cent = **€30,600** Abridge profit and loss statement

Step 2

Cashflow Statement

The debenture interest paid for this year

We need to calculate this figure, which will be used in the abridge profit and loss statement. To calculate the debenture interest for this year you need to look at the additional information to see if there was additional debenture issued during the year.

'Debentures, €40,000, were issued on 30/09/2018'

Remember the figure for Debentures in the balance sheet on 31/12/2018 includes the €40,000 issued on the 30/09/2018. So we need to take this figure away from the €120,000 (or use the figure in the 31/12/2017 column) €120,000 - €40,000 = €80,000

$$€80,000 \times 8\% = €6,400$$

$$€40,000 \times 8\% = \underline{€800}$$

$$= \underline{€7,200} \quad \text{Abridge profit and loss statement}$$

Step 2

The investment income to be received for this year

We need to calculate this figure, which will be used in the abridge profit and loss statement. To calculate the Investment Income figure for this year you need to look at the additional information to see if there was additional debenture issued during the year.

'The quoted investments yield a fixed return of 6% per annum.'

We need to look at the balance sheet for 31/12/2018 to see how much our investment are. For this question the investment is €40,000

$$€40,000 * 6\% = \underline{€2,400} \quad \text{Abridge profit and loss statement}$$

Step 2

Part 2

The next part is to prepare the following steps to calculate figures to the cashflow forecast

Step 1 - Calculate the change in the net cash and net debt

The figures that are calculate here can be used

1. As a check to see if the question has been answered correctly and
2. the change in the net charge figure will be used in the cashflow statement

Net Cash

The main two cash items that make up the net cash figure is cash and bank (including overdraft) these added together will give you the net cash figure.

Net Debt

This the difference between the net cash and nay debenture or liquid resource (Government securities) issued during the year.

Item	Opening Figure	Closing Figure	Change	
Bank overdraft	(25,000)	(15,000)	10,000	
Cash	850	4000	3,150	
Net Cash	(24,150)	(11,000)	13,150	CFF
Debentures	(80,000)	(120,000)	(40,000)	
Liquid Resources			27,000	
Net Debt	(104,150)	(104,000)	150	Reconcile cashflow to net debt

Bank Overdraft

These figures will be got from the balance sheet 31/12/2017 is the opening balance and the 31/12/2018 is the closing balance.
The difference between the two is the change

Cash

These figures will be got from the balance sheet 31/12/2017 is the opening balance and the 31/12/2018 is the closing balance.
The difference between the two is the change

Net Cash	This is the bank overdraft figure plus the cash figure.
Debenture	These figures will be got from the balance sheet 31/12/2017 is the opening balance and the 31/12/2018 is the closing balance. The difference between the two is the change.
Liquid Resources	These are resource that can be easily convert to cash for example government securities.
Net Debt	This figure is the net cash + debenture + liquid resources

**Step 2 - Calculate the amount of dividends, Taxation, Interest Paid and Investment
Income**

The figures that are calculated in step 2 for Dividends, Taxation, Interest Paid and Investment Income will be used in the Cashflow Statement

Item	Op. Figure	Add This year	Less Cl. Figure	Amount Paid	
Dividends	0	30,600	0	30,600	CFF
Taxation	51,200	51,000	55,000	47,200	CFF
Interest Paid	2,000	7,200	1,400	7,800	CFF
Investment Income	1,800	2,400	2,100	2,100	CFF

Dividends These figures will be got from the balance sheet 31/12/2017 is the opening balance, this year's figure is calculated in part 1 (The dividends paid this year) and 31/12/2018 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure.

Taxation These figures will be got from the balance sheet 31/12/2017 is the opening balance, this year's figure taken form the additional information

(Taxation) and 31/12/2018 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure. ($€51,200 + €51,000 - €55,000 = €47,200$)

Interest Paid These figures will be got from the balance sheet 31/12/2017 is the opening balance, this year's figure is calculated in part 1 (The debenture interest paid for this year) and 31/12/2018 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure. ($€2,000 + €7,200 - €1,400 = €7,800$)

Investment Income These figures will be got from the balance sheet 31/12/2017 is the opening balance, this year's figure is calculated in part 1 (The investment income to be received for this year) and 31/12/2018 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure. ($€1,800 + €7,200 - €2,400 = €2,100$)

Step 3 - Calculate the adjustment for Debtors, Stock and Creditors

The figures calculated here will go in end of the Reconcile of operating profit to net cash flow from operating activities

Debtors	If there is a positive there has been more cash received
Stock	If there is a negative there is more stock bought so less cash
Creditors	If there is a negative there his less money as more creditors have been paid

Item	Opening Figure	Closing Figure	Change	Treat as
Debtors	56,000	54,000	2,000	Positive
Stock	89,000	107,500	18,500	Negative
Creditors	72,000	64,000	8,000	Negative

Debtors These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The change is taking the two figures away from each other ($€56,000 - €54,000 = €2,000$)

Treated as	These are treat as positive as we have received more cash form debtors so it will be added on in the Reconcile of operating profit to net cash flow from operating activities statement
Stock	These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The change is taking the two figures away from each other ($€89,000 - €107,500 = €18,500$)
Treated as	These are treat as a negative as we have spent more cash on stock so it will be taken away in the Reconcile of operating profit to net cash flow from operating activities statement
Creditors	These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The change is taking the two figures away from each other ($€72,000 - €64,000 = €8,000$)
Treated as	These are treat as a negative as we have paid more cash to creditors so it will be taken away in the Reconcile of operating profit to net cash flow from operating activities statement

Step 4 - Calculate the change in Fixed Assets (Inc Dep)

The figure that we are calculating here will be used in two statements

1. Reconcile of operating profit to net cash flow from operating activities statement.
2. Cashflow statement

Reconcile of operating profit to net cash flow from operating activities statement.

1. Total depreciation figure that will go at the start of the Reconcile of operating profit to net cash flow from operating activities statement. This will be added on.
2. The profit / loss on the sale of the fixed asset that will go at the start of the Reconcile of operating profit to net cash flow from operating activities statement. A loss will be added on, and a profit will be taken away.

3. The decrease in the goodwill figure for the year will go at the start of the Reconcile of operating profit to net cash flow from operating activities statement. This will be added on.

Cashflow statement

1. Fixed Cost Figure This figure will go in the cashflow statement under the section Capital Expenditure and Financial Investment. It will be taken away in the statement
2. Money received for the sale This figure will go in the cashflow statement under the section Capital Expenditure and Financial Investment. It will be added on in the statement

Item	Opening Figure	Add (Bought)	Less (Disposal)	Closing Figure (BS Figure)
<u>Fixed Costs</u>				
Fixed Costs	550,000	170,000	70,000	650,000
Dep	80,000	45,000	27,000	125,000
<u>Goodwill</u>				
Goodwill	66,000		11,000	55,000

Fixed Costs

Fill the above table for Fixed Costs using following steps

- Opening Figure This figure is taken from the balance sheet 31/12/2017 (Fixed Assets at cost)
- Closing Figure This figure is taken from the balance sheet 31/12/2017 (Fixed Assets at cost)
- Less (Disposal) Check the additional information to see if there was any fixed asset sold (Fixed assets which cost €70,000)
- Add (Bought) We will have to calculate this figure. Use the following to help calculate this figure

Op balance	€550,000	Cl Balance	€650,000
Disposal	<u>(€70,000)</u>	Value	<u>€480,000</u>
Value	€480,000	Bought	€170,000

Depreciation

Fill the above table for Depreciation using following steps

1. Opening Figure This figure is taken from the balance sheet 31/12/2017 (Less accumulated depreciation)
2. Closing Figure This figure is taken from the balance sheet 31/12/2017 (Less accumulated depreciation)
3. Less (Disposal) Check the additional information to see if there was any fixed asset sold (Fixed assets which cost €27,000)
4. Add (Bought) We will have to calculate this figure. Use the following to help calculate this figure

Op balance	€80,000	Cl Balance	€125,000
Disposal	<u>(€27,000)</u>	Value	<u>€53,000</u>
Value	€53,000	Bought	€72,000

Total Depreciation for the year is €72,000. This includes €27,000 on the assets that were sold. This means that the dep for this year is

Total Depreciation	€72,000	Reconcile of operating profit to net cash flow from
Dep on disposal	<u>€27,000</u>	operating activities
	€45,000	

The total Depreciation figure €72,000 will go in the Reconcile of operating profit to net cash flow from operating activities statement

Profit / Loss on the Sale

Remember to calculate if a profit or loss was made on the sale of the fixed asset

Disposal			
Fixed Assets	72,000	Acc Dep	27,000
		Bank	41,300
		Loss	1,700
	72,000		72,000

This loss figure of €1,700 will go in the Reconcile of operating profit to net cash flow from operating activities statement.

The €41,300 will go in the cash flow statement under the section Capital Expenditure and Financial Investment

Goodwill

Fill the above table for Fixed Costs using following steps

1. Opening Figure This figure is taken from the balance sheet 31/12/2017 (Goodwill)
2. Closing Figure This figure is taken from the balance sheet 31/12/2017 (Goodwill)
3. Less (Disposal) We will have to calculate this figure. Use the following to help calculate this figure (66,000 - €55,000 = €11,000)

The €11,000 for Goodwill will go in the Reconcile of operating profit to net cash flow from operating activities statement.

Step 5 - Calculate the changes in the capital structure of the firm
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The figure that we are calculating here will be used in Cashflow Statement. Remember the capital structure is the Finance by section of the balance sheet. So this set will look at the changes in

1. Debentures
2. Shares
3. Share premium

Item	Opening Figure	Add Increase	Less Decrease	Closing Figure	
Debentures	80,000	40,000		120,000	Cashflow Statement
Shares	450,000	60,000		510,000	Cashflow Statement
Premium	0	12,000		12,000	Cashflow Statement

Debentures These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The add is taking the two figures away from each other ($€120,000 - €90,000 = €40,000$)

Shares These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The add is taking the two figures away from each other ($€510,000 - €450,000 = €60,000$)

Premium These figures will be got from the balance sheet 31/12/2017 is the opening balance, and 31/12/2018 is the closing balance. The add is taking the two figures away from each other ($€12,000 - €0 = €12,000$)

Part 3

Calculate the following statements (using the templates to calculate the correct figures)

1. Abridge profit and loss account
2. Reconcile of operating profit to net cash flow from operating activities
3. Cashflow
4. Reconciliation of net cash flow to movement in net debt

Abridge profit and loss account

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

1	Operating profit	79,750	Add 3 and take away 2
2	Investment income	2,400	Part A
3	Debenture interest	(7,200)	Part A
4	Profit before tax	*74,950	Add 5 and 6
5	Taxation	(51,000)	Additional Information
6	Profit after tax	*23,950	Take 8 away from 7
7	Dividends	(30,600)	Part A
8	Retained Profit	(6,650)	Taken 10 away form 9
9	Profit and loss balance 01/01/2018	42,250	Taken from the Balance Sheet
10	Profit and loss balance 31/12/2018	35,600	Taken from the Balance Sheet

Reconcile of operating profit to net cash flow from operating activities

Reconciliation of operating profit to net cash flow from operating activities		
Operating profit	35,600	From Abridge Profit & Loss
Add Dep Charge	72,000	Step 4
Loss on sale of Fixed Asset	1,700	Step 4
Add Goodwill	11,000	Step 4
Increase in bad debt	400	From the Question
Decrease in Debtors	2,000	Step 3
Increase in Stock	(18,500)	Step 3
Decrease in Creditors	(8,000)	Step 3
Net cash inflow from operating activities	140,350	

Note - Look out in the question to see if there is a change in the bad debts. If there is an adjustment will be needed to see if there is an increase or decrease. If there is an increase it will be added on but if there is a decrease it will be taken away. This can also be added into step 3.

The reconciliation involves adjusting operating profit to account for non-cash expenses, such as depreciation, as well as changes in working capital items like debtors and creditors.

Cashflow Statement

Cash Flow statement of Jackson plc for the year ended 31/12/2018			
Operating Activities			
Net cash inflow from operating Activities		140,350	From above
Returns on Investment and servicing debt			
Interest Paid	(7,800)		Step 3
Investment Income (Interest Received)	2,100	(5,700)	Step 2
Taxation			
Taxation Paid		(47,200)	Step 2
Capital Expenditure and Financial Investment			
Purchase to acquire Fixed Assets	(170,000)		Step 4
Receipts from sale of Fixed Assets	41,300	(128,700)	Additional Info
Equity Dividends Paid Equity			
Dividends paid		(30,600)	Abridge
Net Cash outflow before financing resources		(71,850)	
Management of Liquid Resources			
Purchases of Government Securities		(27,000)	From BS
Financing			
Financing issue of debentures	40,000		Step 5
Receipt from shares	60,000		Step 5
Receipts form share premiums	12,000	112,000	Step 5
Increase / Decrease in Cash		13,150	Step 1

Reconciliation of net cash flow to movement in net debt
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Reconciliation of net cash to movement in net debt		
Increase / Decrease in Cash	13,150	From above
Cash used to purchase liquid resources	27,000	Step 1
Cash received from debentures	(40,000)	Step 5
Change in net debt	150	Match Step 1
Net debt 1/1/2018	(104,150)	Match Step 1 (Change)
Net debt 31/12/2018	(104,000)	Match Step 1 (CI Figure)

Part 4

(b) (i) Explain what is meant by a non-cash item.

Give three examples, using the figures provided.

(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.

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

(ii) 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.