
Cashflow Statements

Step by Step approach

Quig 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 (these is none in this question)

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

'Dividends paid during the year amounted to €55,000'

As the dividends have been paid there is no need to do a working

€55,000 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.

'€50,000 Debentures were issued on 01/01/2014'

As these debentures were issued at the start of the year we can calculate the interest on the total figure

$€180,000 \times 10\% = \mathbf{€18,000}$ Abridge profit and loss statement

Step 2

The investment income to be received for this year

As there is no rate on investment given in this question, we can't calculate in the investment income. So there is no adjustment for this part.

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	(31,000)	(18,000)	13,000	
Cash	60,000	34,000	(26,000)	
Net Cash	29,000	16,000	(13,000)	CFF
Debentures	(130,000)	(180,000)	(50,000)	
Liquid Resources		56,000	56,000	
Net Debt	(101,000)	(108,000)	(7,000)	Reconcile cashflow to net debt

Bank Overdraft

These figures will be got from the balance sheet 31/12/2013 is the opening balance and the 31/12/2014 is the closing balance.
The difference between the two is the change

Cash

These figures will be got from the balance sheet 31/12/2013 is the opening balance and the 31/12/2013 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 31/12/2013 is the opening balance and the 31/12/2014 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	55,000	0	55,000	CFF
Taxation	47,000	65,000	55,000	57,000	CFF
Interest Paid	0	18,000	0	18,000	CFF

Dividends For this question eh dividends figure is given in the addition information section - €55,000

Taxation These figures will be got from the balance sheet 31/12/2013 is the opening balance, this year's figure taken form the additional information (Taxation) and 31/12/2014 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure. (€47,000 + €65,000 - €55,000 = €57,000)

Interest Paid These figures will be got from the balance sheet 31/12/2013 is the

opening balance, this year's figure is calculated in part 1 (The debenture interest paid for this year) and 31/12/2014 is the closing balance. The amount paid is adding this year's figure to the opening figure and then taking away the closing figure. As there is no opening and closing interest the only figure to be included is the figure that was calculate in Part A

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	110,000	170,000	60,000	Negative
Stock	295,000	350,000	55,000	Negative
Creditors	235,000	202,000	33,000	Negative

Debtors These figures will be got from the balance sheet 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The change is taking the two figures away from each other ($€170,000 - €110,000 = €60,000$)

Treated as These are treat as a negative as we have not received €60,000 from debtors so it will be taken away in the Reconcile of operating profit to net cash flow from operating activities statement

Stock These figures will be got from the balance sheet 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The change is taking the two figures away from each other ($€350,000 - €295,000 = €55,000$)

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 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The change is taking the two figures away from each other ($€235,000 - €202,000 = €33,000$)
- 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	470,000	220,000	50,000	640,000
Dep	80,000	120,000	25,000	200,000

Fixed Costs

Fill the above table for Fixed Costs using following steps

1. Opening Figure This figure is taken from the balance sheet 31/12/2013 (Fixed Assets at cost)
2. Closing Figure This figure is taken from the balance sheet 31/12/2014 (Fixed Assets at cost)
3. Less (Disposal) Check the additional information to see if there was any fixed asset sold (Fixed assets which cost €50,000)
4. Add (Bought) We will have to calculate this figure. Use the following to help calculate this figure

Op balance	€470,000	Cl Balance	€640,000
Disposal	<u>(€50,000)</u>	Value	<u>€420,000</u>
Value	€420,000	Bought	€220,000

Depreciation

Fill the above table for Depreciation using following steps

1. Opening Figure This figure is taken from the balance sheet 31/12/2013 (Less accumulated depreciation)
2. Closing Figure This figure is taken from the balance sheet 31/12/2014 (Less accumulated depreciation)
3. Less (Disposal) Check the additional information to see if there was any fixed asset sold (Fixed assets which cost €25,000)
4. Add (Bought) We will have to calculate this figure. Use the following to help calculate this figure

Op balance	€80,000	Cl Balance	€200,000
Disposal	<u>(€25,000)</u>	Value	<u>€55,000</u>
Value	€55,000	Bought	€145,000

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	€145,000	Reconcile of operating profit to net cash flow from
Dep on disposal	<u>€25,000</u>	operating activities
	€120,000	

The total Depreciation figure €145,000 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	50,000	Acc Dep	25,000
		Bank	30,000
		Loss	5,000
	50,000		50,000

This loss figure of €5,000 will go in the Reconcile of operating profit to net cash flow from operating activities statement.

The €30,000 will go in the cash flow statement under the section Capital Expenditure and Financial Investment

Step 5 - Calculate the changes in the capital structure of the firm

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	130,000	50,000		180,000	Cashflow Statement
Shares	250,000	60,000		310,000	Cashflow Statement
Premium	0	15,000		15,000	Cashflow Statement

Debentures These figures will be got from the balance sheet 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The add is taking the two figures away from each other ($€180,000 - €130,000 = €50,000$)

Shares These figures will be got from the balance sheet 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The add is taking the two figures away from each other ($€310,000 - €250,000 = €60,000$)

Premium These figures will be got from the balance sheet 31/12/2013 is the opening balance, and 31/12/2014 is the closing balance. The add is taking the two figures away from each other ($€15,000 - €0 = €15,000$)

Part 3

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

1. Abridge profit and loss account
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Abridge profit and loss account

Abridged Profit and Loss Account of Quig plc for the year ending 31/12/2014

1	Operating profit	143,000	Add 3 and 2
2	Debenture interest	(18,000)	Part A
3	Profit before tax	125,000	Add 4 and 5
4	Taxation	(65,000)	Additional Information
5	Profit after tax	60,000	Take 7 away from 6
6	Dividends	55,000	Additional Information
7	Retained Profit	5,000	Taken 9 away form 8
8	Profit and loss balance 01/01/2018	356,500	Taken from the Balance Sheet
9	Profit and loss balance 31/12/2018	361,500	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	143,000	From Abridge Profit & Loss
Add Dep Charge	145,000	Step 4
Loss on sale of Fixed Asset	5,000	Step 4
Increase in bad debt	3,000	From the Question
Increase in Debtors	(60,000)	Step 3
Increase in Stock	(55,000)	Step 3
Decrease in Creditors	(33,000)	Step 3
Net cash inflow from operating activities	138,000	CFF

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 Quig plc for the year ended 31/12/2014

Operating Activities			
Net cash inflow from operating Activities		138,000	From above
Returns on Investment and servicing debt			
Interest Paid		(18,000)	Step 3
Taxation			
Taxation Paid		(57,000)	Step 2
Capital Expenditure and Financial Investment			
Purchase to acquire Fixed Assets	(220,000)		Step 4
Receipts from investments	100,000		Additional Info
Receipts from sale of Fixed Assets	30,000	(90,000)	Additional Info
Equity Dividends Paid Equity			
Dividends paid		(55,000)	Abridge
Net Cash outflow before financing resources		(82,000)	
Management of Liquid Resources			
Purchases of Government Securities		(56,000)	From BS
Financing			
Financing issue of debentures	50,000		Step 5
Receipt from shares	60,000		Step 5
Receipts form share premiums	15,000	125,000	Step 5
Increase / Decrease in Cash		(13,000)	Step 1

Reconciliation of net cash flow to movement in net debt

Reconciliation of net cash to movement in net debt		
Increase / Decrease in Cash	(13,000)	From above
Cash used to purchase liquid resources	56,000	Step 1
Cash received from debentures	(50,000)	Step 5
Change in net debt	(7,000)	Match Step 1
Net debt 1/1/2018	(101,000)	Match Step 1 (Change)
Net debt 31/12/2018	(108,000)	Match Step 1 (CI Figure)

Part 4**(b) (i) Outline the purposes of cash flow statements.**

The following are some of the reasons for preparing a cashflow statement

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

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

The following are some of the reasons why the cash balance may decrease

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