

# 6.

## ANSWERS

### EXERCISES

#### 1. Venus Rock Ltd

<b>Cash Flows from operating activities</b>	<b>€</b>
Profit before tax	1.400
Add Depreciation charge	1.100
Add loss on sale non-current asset	800
<b>Operating cash flow before working capital changes</b>	<b>3.300</b>
Less increase in inventories	(150)
Less increase in trade receivables	(300)
Add increase in trade payables	250
<b>Net Cash flow from operating Activities</b>	<b>3.100</b>

#### 2. Lemona Ltd

<b>Cash Flow from Investing Activities</b>	<b>€</b>
Purchase of new premises	(300.000)
Proceeds from sale of shares in other companies	250.000
Dividends received from shares in other companies	<u>420.000</u>
<b>Net Cash inflow from Investing Activities</b>	<b>370.000</b>

#### 3. Kavouri Ltd

##### **Cash Flow from Financing Activities**

Proceeds from issue of shares	240.000*
Repayment of a bank loan	(120.000)
Dividends Paid	<u>(75.000)**</u>
<b>Net Cash from Financing Activities</b>	<b>45.000</b>

\*200.000x1.2

\*\* (300.000+200.000) x0.15

#### 4. Carmen plc

- The depreciation charge for the year of **€31.800** should be added on the profits under Cash flow from operating activities
- The **€1.200** profit on disposal should be deducted from the profits under Cash flow from operating activities
- The cash received from the sale of the plant **€13.200** is an inflow and should added under Cash flow from Investing activities

#### Statement of Cash Flow (extract)

Cash Flows from operating activities	
Profit before tax	....
Add Depreciation charge	<b>31.800</b>
Less Profit on disposal of non-current assets	<b>1.200</b>

Cash Flow from Investing Activities	
Proceeds from sale of tangible non-current assets	<b>13.200</b>

#### Workings:

##### Motor Vehicles A/c

	€		€
Balance b/d	240.000	Disposal	32.000
		<b>Balance c/d</b> (Balancing figure.)	<b>208.000</b>
	240.000		240.000
Balance b/d	208.000		

### Accumulated Depreciation A/c

	Disposal	€ 20.000		Balance b/d	€ 100.000
	Balance c/d	111.800*		Depn for the year SOPL	<b>31.800</b>
		<u>131.800</u>			<u>131.800</u>
	*(208.000-96.200) (c/d cost –c/d NBV)			Balance b/d	111.800

### Disposal A/c

	Plant	€ 32.000		Accumulated dep'n	€ 20.000
	Profit on disposal SOPL	<b>1.200</b>		Bank	13.200
		<u>33.200</u>			<u>33.200</u>

**NOTE:** Paragraph 2 the accumulated depreciation on the plant (**disposed**) to the year ended 31 December **2015** was €20.000 **Assume no depreciation is charged in the year of disposal.**

## 5. Kyrenia Ltd

<b>(a)</b>	€	€
<b>Cash flows from operating activities</b>		
Profit before taxation	84.000	
Add: Depreciation	13.000	
<b>Operating cash flow before working capital changes</b>	<u>97.000</u>	
Less: Increase in trade receivables	(8.000)	
Less: Increase in inventories	(40.000)	
Add: Increase in trade payables	13.000	
<b>Cash generated from operations</b>	<u>62.000</u>	
<b>Net cash from operating activities</b>		62.000

(b)

**Statement of Cash Flow for Kyrenia Ltd  
for year ended 31 December 2017**

	€	€
<b>Net cash inflow from operating activities</b>		62.000
<b>Cash flows from investing activities</b>		
Acquisition/Purchase of non-current assets	(30.000)	
Net cash outflow from investing activities		(30.000)
<b>Cash flows from financing activities</b>		
Repayment of loan	(10.000)	
Net cash outflow from financing activities		<u>(10.000)</u>
Net cash inflow during the year		<b>22.000</b>
Cash and cash equivalents at the beginning of the year		<b>136.000</b>
<b>Cash and cash equivalents at the end of the year</b>		<b><u>158.000</u></b>

**6. Thasos Tankers plc**

- Only €200.000 cash inflow from the issue of Preference shares should be included in the Cash Flow Statement under Financing Activities.
- The Increase in the share capital is due to a bonus issue and is therefore not considered to be cash inflow since no cash is received as shown in the workings below:

Ordinary Share Capital A/c			
	€		€
Balance c/d	3.000	Balance b/d	2.000
		Share premium- (bonus issue)	1.000
	<u>3.000</u>		<u>3.000</u>

Share premium A/c			
	€		€
Ord share capital (bonus issue)	1.000	Balance b/d	1.630
Balance c/d	630		
	<u>1.630</u>		<u>1.630</u>

**NOTE:** An increase in the share capital is not always consider to be a cash issue of shares but it could be due to a bonus issue so always take into consideration the decrease in the share premium account as well. (In this question is made clear)

7.

**Jasper Tulip**

**Statement of cash flow (extract) for the year ended 31 December 2016**

	€
<b>Cash Flows from operating activities</b>	
Operating Profit (196.000-136.000)*	60.000
Add: Debenture interest	7.000
Add: Depreciation charge (w2)	140.000
Less Profit on disposal of non-current assets (w3)	(7.000)
<b>Operating cash flow before working capital changes</b>	<b>200.000</b>
Increase in inventories	(4.000)
Decrease in trade receivables	8.000
Decrease in trade payables	(5.000)
<b>Cash generated from operations</b>	<b>199.000</b>
Less debenture interest paid	(7.000)
<b>Net Cash flow from operating Activities</b>	<b>192.000</b>

\*In this case the profit is not given and it is assumed that is the difference in the retained earnings

**(3) Workings:**

**Disposal A/c**

	€		€
NCA at cost	70.000	Accumulated Depn	60.000
Profit on disposal-SOPL	<b>7.000</b>	Bank	17.000
	<b>77.000</b>		<b>77.000</b>

(1) **Accumulated Depreciation A/c**

		€		€
	Disposal	60.000		Balance b/d 140.000
	Balance c/d	220.000		Dep'n for the year-SOPL <b>140.000</b>
		280.000		280.000
				Balance b/d 111.800

(2) **Motor Vehicles A/c**

		€		€
	Balance b/d	362.000		Disposal 70.000
	Bank/additions	<b>198.000</b>		Balance c/d 490.000
		560.000		560.000
	Balance b/d	490.000		

8.

**Markos Kyprian plc****Statement of cash flows for the year ended 31 January 2015**

	€000	€000
<b>Cash Flows from operating activities</b>		
Profit from operations before taxation	2.127	
Add: Depreciation	214	
Less: Profit on disposal	(18)	
Add: Finance cost (Debenture interest)	40	
<b>Operating cash flow before working capital changes</b>	<b>2.363</b>	
Less: Increase in inventories	(12)	
Add: Decrease in trade receivables	17	
Less: Decrease in trade payables	(23)	
<b>Cash generated from operations</b>	<b>2.345</b>	
Interest paid	(40)	
Tax paid	(298)	
<b>Net cash from operating activities</b>		<b>2.007</b>
<b>Cash Flows from investing activities</b>		
Payment for the purchase of new equipment	(1.400)	
Receipts from the sale of non-current assets	47	
<b>Net Cash Flows used in investing activities</b>		<b>(1.353)</b>
<b>Cash Flows from financing activities</b>		
Proceeds from the issue of share capital	2.000	
Dividends paid(180+460)	(640)	
<b>Net Cash Flows from financing activities</b>		<b>1.360</b>
<b>Net increase in cash and equivalent</b>		<b>2.014</b>

9. **SAME AS QUESTION 8**

10.

## Kyriacos Ltd

## Statement of cash flows for the year ended 30 August 2014

	€000	€000
<b>Cash Flows from operating activities</b>		
Profit from operations before taxation	50	
Add Depreciation (20.000+50.000)	70	
Add Finance cost	30	
<b>Operating cash flow before working capital changes</b>	<b>150</b>	
Add Decrease in inventories	100	
Less Increase in trade receivables	(20)	
Less Decrease in trade payables	(31)	
<b>Cash generated from operations</b>	<b>199</b>	
Less interest paid	(30)	
Less tax paid	(13)	
<b>Net cash from operating activities</b>		<b>156</b>
<b>Cash Flows from investing activities</b>		
Payment for the purchase of new equipment	(200)	
<b>Net Cash Flows used in investing activities</b>		<b>(200)</b>
<b>Cash Flows from financing activities</b>		
Proceeds from the issue of share capital(1.775+425)-(1.300+300)or w1&2	600	
Repayment of loan (402-203)	(199)	
Dividends paid	(15)	
<b>Net Cash Flows from financing activities</b>		<b>386</b>
<b>Net increase in cash and equivalent</b>		<b>342</b>
Cash and cash equivalents 1 September 2013		(42)
Cash and cash equivalents 31 August 2014		300
<b>Net increase in cash and equivalent</b>		<b>342</b>



**Workings:**

<b>1. Ordinary Share Capital A/c</b>			
Balance c/d	€000	Balance b/d <b>Bank</b> (balancing figure)	€000
	1.775		1.300
			<b>475</b>
	1.775		1.775

<b>2. Share premium A/c</b>			
Balance c/d	€000	Balance b/d <b>Bank*</b> (balancing figure)	€000
	425		300
			125
	425		425

\*During the year there was a new issue of shares at a premium

<b>3. Taxation A/c</b>			
Bank Balance c/d	€	Balance b/d Tax for the year	€
	<b>13.000</b>		8.000
	5.000		10.000
	18.000		18.000

**NOTE:** All the tangible non-current assets are grouped together under the general term PPE (Plant, Property & Equipment) and in some cases are kept in the same account.

11.(ii) Statement of Cash Flows for year ending 31 December 2016	
Cash Flows from operating activities	€
Profit from operations before taxation	2.038.000
Add: Depreciation	297.000
Add: amortization of intangible assets* (2.800.000 – 2.600.000)	200.000
Less: Profit on Sale of non-current asset	(120.000)
Add: Loss on Sale of non-current asset	26.000
Add: Finance cost (5.000 + 450.000**)	455.000
<b>Operating cash flow before working capital changes</b>	<b>2.896.000</b>
Less: Increase in Inventories	(266.000)
Less: Increase in Trade receivables	(54.000)
Add: Decrease in other receivables	6.000
Add: Increase in trade payables	225.000
Less: Decrease in other payables	(6.000)
<b>Cash generated from operations</b>	<b>2.801.000</b>
Less interest paid (5 + 450)	(455.000)
Less tax paid	(315.000)
<b>Net cash from operating activities</b>	<b>2.031.000</b>

**\*NOTE:** The treatment of amortization of the intangible assets is the same as that of the depreciation on the intangible assets

**\*\*** 5.000.000 x 9% = 450.000

(i) Plant, Property and Equipment Account A/c					
		€			€
Jan. 1	Balance b/d	8.542.000	Mar. 3	Disposals	2.450.000
Nov. 5	Bank	<b>164.000</b>	Sept. 4	Disposals	387.000
			Dec. 31	Balance c/d	5.869.000
		8.706.000			8.706.000
Jan. 1	Balance b/d	5.869.000			

## Workings:

### Accumulated depreciation A/c

€			€		
Mar. 3	Disposals	645.000	Jan. 1	Balance b/d	3.679.000
Sept. 4	Disposals (387000-193.000)	194.000	Dec. 31	Dep'n for the year / SOPL =	<b>297.000</b>
Dec. 31	Balance c/d	3.137.000			
		3.976.000			3.976.000
				Balance b/d	3.137.000

## Optional workings:

### Disposal A/c

€			€		
Mar. 3	PPE	2.450.000	Mar. 3	Bank	1.925.000
Sept. 4	PPE	387.000	Mar. 3	Accumulated Depn	645.000
Dec. 31	Profit on disposal/SOPL	<b>94.000*</b>	Sept. 4	Bank	167.000
			Sept. 4	Accumulated Depn	194.000
		2.931.000			2.931.000

\*One disposal a/c was opened to record both disposal of assets. The Profit of 94.000 is the netting off the profit of €120.000 and the loss of €26.000. Alternatively separate disposals for each could be opened

Taxation A/c			
		€	€
Bank	<b>315.000</b>	Balance b/d	315.000
Balance c/d	217.000	Tax for the year	217.000
	18.000		18.000

## 12.Maltese Construction Plc

## Statement of Cash Flows for Maltese Construction for year 31 March 2015

Statement of Cash Flows for Marico Construction for year ended March 2016		
<b><u>Cash Flows from operating activities</u></b>		
<b>Profit before tax</b>	472.000	
Add Finance cost (W1)	82.100	
Add Depreciation (W3)	689.000	
Add Loss on Sale of Non-current Asset (W5)	120.000	
<b>Operating cash flow before working capital changes</b>	<b>1.363.100</b>	
Decrease in inventories	88.000	
Decrease in trade receivables	84.000	
Decrease in trade payables	(31.000)	
<b>Cash generated from operations</b>	<b>1.504.100</b>	
Less Interest Paid: Debentures	(27.500)	
: Bank Loan	(45.000)	
Less: Redeemable preference shares dividend	(9.600)	
Less Tax Paid (W5)	(208.000)	
<b>Net Cash from Operating Activities</b>		<b>1.214.500</b>
<b><u>Cash Flow from Investing Activities</u></b>		
Payments to acquire tangible non-current assets	(1.200.000)	
Proceeds from sale of tangible non-current assets	420.000	
Payment to acquire shares in other companies	(175.000)	
<b>Net cash used in Investing Activities</b>		<b>(955.000)</b>
<b><u>Cash Flows from Financing activities</u></b>		
Redemption of debentures	(1.000.000)	
Receipt of Bank Loan	1.500.000	
Dividends Paid: Final 2014 (3.500.000 x 0.02)	(70.000)	
Interim 2015 (3.500.000 x 0.01)	(35.000)	
<b>Net Cash from Financing Activities</b>		<b>395.000</b>
<b><u>Net increase in cash and cash equivalents</u></b>		<b>654.000</b>
Cash and cash equivalents at the beginning of the year		326.000
Cash and cash equivalents at the end of the year		980.000
<b>Net increase in cash and cash equivalents</b>		<b>654.000</b>

## Workings

### (1) Finance cost:

Debenture interest	$1.000.000 \times 5.5\% \times 6/12 = 27.500$
Bank loan interest	$1.500.000 \times 6\% \times 6/12 = 45.000$
Redeemable PS div	$320.000 \times 3\% = \underline{9.600}$
	<u>82.100</u>

### (2) **Property plan and equipment –cost A/c**

	€000		€000
Balance b/d	5.428	Disposals	900
Bank- New asset	1.200	Balance c/d	5.728
	<u>6.628</u>		<u>6.628</u>

### (3) **Accumulated depreciation A/c**

	€000		€000
Depreciation -disposal	360	Balance b/d	1.650
Balance c/d	1.979	<b>SOPL- charge for the year</b>	<b>689</b>
	<u>2.339</u>		<u>2.339</u>

### (4) **Disposal A/c**

	€000		€000
NCA at cost (W2)	900	Accumulated Depn	360
		Bank-proceeds	420
		<b>Loss on disposal</b>	<b>120</b>
	<u>900</u>		<u>900</u>

### (5) **Corporation tax**

	€000		€000
<b>Cash - paid</b>	<b>208</b>	Balance b/d	208
Balance c/d	68	SOPL- charge for the year	68
	<u>276</u>		<u>276</u>