

6

ANSWERS

1.

- 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	31.800
Less Profit on disposal of non-current assets	1.200

Cash Flow from Investing Activities	
Proceeds from sale of tangible non-current assets	13.200

Workings:

Motor Vehicles A/c

	€		€
Balance b/d	240.000	Disposal	32.000
		Balance c/d (Balancing figure.)	208.000
	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	31.800
		<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	1.200		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.**

2.

- Only €200.000 cash inflow from the issue of Preference shares should be included in the Cash Flow Statement under Investing 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)

3.

Jasper Tulip

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

Cash Flows from operating activities

	€
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)
Operating cash flow before working capital changes	200.000
Increase in inventories	(4.000)
Decrease in trade receivables	8.000
Decrease in trade payables	(5.000)
Cash generated from operations	201.000
Less debenture interest paid	(7.000)
Net Cash flow from operating Activities	194.000

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

Workings:

(1) Accumulated Depreciation A/c

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

(2) Motor Vehicles A/c

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

(3)

Disposal A/c

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

4. (Same as question 5)

Markos Kyprian plc		
Statement of cash flows for the year ended 31 January 2015		
	€000	€000
Cash Flows from operating activities		
Profit from operations before taxation	2.127	
Add: Depreciation	214	
Less: Profit on disposal	(18)	
Add: Finance cost (Debenture interest)	40	
Operating cash flow before working capital changes	2.363	
Less: Increase in inventories	(12)	
Add: Decrease in trade receivables	17	
Less: Decrease in trade payables	(23)	
Cash generated from operations	2.345	
Interest paid	(40)	
Tax paid	(298)	
Net cash from operating activities		2.007
Cash Flows from investing activities		
Payment for the purchase of new equipment	(1.400)	
Receipts from the sale of non-current assets	47	
Net Cash Flows used in investing activities		(1.353)
Cash Flows from financing activities		
Proceeds from the issue of share capital	2.000	
Net Cash Flows from financing activities		2.000
Net increase in cash and equivalent		2.654

6.

Kyriacos Ltd		
Statement of cash flows for the year ended 30 August 2014		
	€000	€000
Cash Flows from operating activities		
Profit from operations before taxation	50	
Add Depreciation (20.000+50.000)	70	
Add Finance cost	30	
Operating cash flow before working capital changes	150	
Add Decrease in inventories	100	
Less Increase in trade receivables	(20)	
Less Decrease in trade payables	(31)	
Cash generated from operations	199	
Less interest paid	(30)	
Less tax paid	(13)	
Net cash from operating activities		156
Cash Flows from investing activities		
Payment for the purchase of new equipment	(200)	
Net Cash Flows used in investing activities		(200)
Cash Flows from financing activities		
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)	
Net Cash Flows from financing activities		386
Net increase in cash and equivalent		342
Cash and cash equivalents 1 September 2013		(42)
Cash and cash equivalents 31 August 2014		300
Net increase in cash and equivalent		342

Workings:

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

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

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

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

7.(b) 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
Operating cash flow before working capital changes	2.896.000
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)
Cash generated from operations	2.801.000
Less interest paid (5 + 450)	(455.000)
Less tax paid	(315.000)
Net cash from operating activities	2.031.000

***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

(a) Plant, Property and Equipment Account A/c					
		€			€
Jan. 1	Balance b/d	8.542.000	Mar. 3	Disposals	2.450.000
Nov. 5	Bank	164.000	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 =	297.000
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	94.000*	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

8.

Statement of Cash Flows for Maltese Construction for year 31 March 2015		
Cash Flows from operating activities		
Profit before tax	472.000	
Add Finance cost (W1)	82.100	
Add Depreciation (W3)	689.000	
Add Loss on Sale of Non-current Asset (W5)	120.000	
Operating cash flow before working capital changes	1.363.100	
Decrease in inventories	88.000	
Decrease in trade receivables	84.000	
Decrease in trade payables	(31.000)	
Cash generated from operations	1.504.100	
Less Interest Paid: Debentures	(27.500)	
: Bank Loan	(45.000)	
Less: Redeemable preference shares dividend	(9.600)	
Less Tax Paid (W5)	(208.000)	
Net Cash from Operating Activities		1.214.500
Cash Flow from Investing Activities		
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)	
Net cash used in Investing Activities		(955.000)
Cash Flows from Financing activities		
Redemption of debentures	(1.000.000)	
Receipt of Bank Loan	1.500.000	
Dividends Paid : Final 2014 ($3.500.000 \times 0.02$)	(70.000)	
Interim 2015 ($3.500.000 \times 0.01$)	(35.000)	
Net Cash from Financing Activities		395.000
Net increase in cash and cash equivalents		654.000
Cash and cash equivalents at the beginning of the year	326.000	
Cash and cash equivalents at the end of the year	980.000	
Net increase in cash and cash equivalents	654.000	

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	SOPL- charge for the year	689
	<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
		Loss on disposal	120
	<u>900</u>		<u>900</u>

(5) **Corporation tax**

	€000		€000
Cash - paid	208	Balance b/d	208
Balance c/d	68	SOPL- charge for the year	68
	<u>202</u>		<u>202</u>