

QUESTION 4 - solution**(a) Reconciliation of operating profit to net cash flow from operating activities:****20**

		€	
Operating profit		150,600	②
Depreciation charges for year	W 1	70,000	④
Loss on sale of machinery	W 2	11,000	⑥
Increase in stocks		(17,000)	②
Increase in debtors		(28,000)	②
Increase in creditors		23,000	②
Net cash inflow from operating activities		<u>209,600</u>	②

(b)**Cash Flow Statement of Creation Plc for the year ended 31/12/2003****30****Operating Activities**

€

Net cash inflow from operating activities 209,600 ①

Returns on investments and servicing of finance ①

Interest paid (9,200) ③

Taxation ①

Corporation tax paid (40,000) ③

Capital expenditure and financial investment ①

Investments	(30,000)	②	
Payments to acquire tangible fixed assets	(75,000)	②	
Receipts from sale of fixed assets	<u>24,000</u>	②	(81,000)

Equity dividends paid ①

Dividends paid during year W 3 (60,000) ④

Net cash **inflow** before liquid resources and financing 19,400**Financing**

Repayment of debentures	(110,000)	②	
Receipts from issue of shares	60,000	①	
Receipts from share premium	<u>12,000</u>	①	(38,000)

Decrease in cash ② **(18,600)****Reconciliation of net cash flow to movement in net debt**

€

Decrease in cash during period	(18,600)	①
Cash used to purchase debentures	<u>110,000</u>	①
Change in net debt	91,400	
Net debt at 1/1/2003	<u>(147,000)</u>	
Net debt at 31/12/2003	<u>(55,600)</u>	①

(c) Credit sales/ purchases affect profit but do not affect cash**10**

Non-cash losses and gains affect profit but not cash

Purchase and sale of fixed assets by cash affect cash but not profit

Introduction or withdrawal of capital in cash affect cash but not profit

Non-cash items – Depreciation, Provisions against losses, losses/ profits from sale of assets

N.B. *The three marks applied to Reconciliation Statement above are applied to “Net cash inflow before financing €19,400” if old method was presented by candidates.*

Headings 4 x 1 mark