

SECTION A Answer Two Question from Three

QUESTION ONE

The following group financial statements relate to Casey, a public limited company:

Casey Group

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2014

	£
Turnover	374,000
Cost of sales	<u>(100,000)</u>
Gross profit	274,000
Other income	10,000
Distribution costs	<u>(160,000)</u>
Administrative expenses	<u>(130,000)</u>
Group operating loss	(6,000)
Interest payable	<u>(4,000)</u>
Loss on ordinary activities before tax	(10,000)
Tax on ordinary activities	<u>(16,000)</u>
Loss on ordinary activities after tax	(26,000)
Minority interest	<u>(11,000)</u>
Loss for the year	<u>(37,000)</u>

Casey Group BALANCE SHEET AS AT 31 MARCH 2014

	2014 £	2013 £
<i>Fixed assets</i>		
Tangible assets	174,000	180,000
Goodwill	<u>40,000</u>	<u>50,000</u>
	<u>214,000</u>	<u>230,000</u>
<i>Current assets</i>		
Stock	67,000	99,000
Debtors	46,000	82,000
Bank	<u>315,000</u>	<u>293,000</u>
	<u>428,000</u>	<u>474,000</u>
<i>Creditors: amounts falling due within one year:</i>		
Creditors	(57,000)	(90,000)
Taxation	<u>(18,000)</u>	<u>(21,000)</u>
	<u>(75,000)</u>	<u>(111,000)</u>
<i>Net current assets</i>	<u>353,000</u>	<u>363,000</u>
<i>Total assets less current liabilities</i>	<u>567,000</u>	<u>593,000</u>
<i>Creditors: amounts falling due after more than one year:</i>		
Loan	(10,000)	(32,000)
	<u>557,000</u>	<u>561,000</u>
Minority interest	<u>(35,000)</u>	<u>(26,000)</u>
	<u>522,000</u>	<u>535,000</u>
Capital and reserves		
Share capital	325,000	298,000
Profit and loss reserve	185,000	227,000
Revaluation reserve	<u>12,000</u>	<u>10,000</u>
	<u>522,000</u>	<u>535,000</u>

The following information relates to the financial statements:

1. The tangible assets in the balance sheet comprise the following:

	£
Carrying value 1 April 2013	180,000
Additions at cost	111,765
Gains on property revaluation	2,000
Disposals	(28,000)
Depreciation	(91,765)
Carrying value 31 March 2014	<u>174,000</u>

The disposal proceeds were £31,000. The gain on disposal is included in administrative expenses.

The additions comprised imported plant & machinery from an overseas supplier on 30 June 2013. The cost was \$190,000 with \$140,000 being paid on 31 October 2013 and the balance to be paid 31 May 2014.

Rates of exchange were as follows:

	\$ to £1
30 June 2013	1.7
31 October 2013	1.6
31 March 2014	1.5

Exchange gains and losses are included in administrative expenses.

2. The movement on reserves was as follows:

	Profit and Loss £	Revaluation Reserve £
Balance 1 April 2013	227,000	10,000
Loss for year	(37,000)	
Gain on property revaluation		2,000
Dividends paid	<u>(5,000)</u>	
Balance 31 March 2014	<u>185,000</u>	<u>12,000</u>

Required:

- a) Prepare a group cash flow statement for the year ended 31 March 2014 in accordance with FRS1, 'Cash Flow Statements', using the indirect method. (25 marks)
- b) Discuss the key issues which the cash flow statement highlights regarding the cash flow of the company. (5 marks)

(TOTAL 30 MARKS)

CASEY GROUP

CASHFLOW For Year ended 31-3-14

£ £

CASHFLOWS FROM OPERATING ACTIVITIES:

Group operating loss	(6000)
Depreciation	91765
Profit on sale of fixed asset (31-28)	(3000)
Exchange loss (W2)	9068
Impairment of goodwill (50-40)	10000
Decrease in stocks (67-99)	32000
Decrease in debtors (46-82)	36000
Decrease in trade creditors (57000-90000-33333) (W2)	(66333)
Cash flow from operations	103500
Interest paid	(4000)
Tax paid (W1)	(19000)
NET CASHFLOW FROM OPERATING ACTIVITIES	80500

CASHFLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of fixed assets	31000
Payments to acquire fixed assets	(87500)
NET CASHFLOW FROM INVESTING ACTIVITIES	(56500)

CASHFLOWS FROM FINANCING ACTIVITIES:

Dividend paid to ordinary shareholders	(5000)
Dividend paid to minority interest (W3)	(2000)
Proceeds from issue of shares (325-298)	27000
Repayment of debt	(22000)
NET CASHFLOW FROM FINANCING ACTIVITIES	(2000)

INCREASE IN CASH + CASH EQUIVALENTS	22000
CASH + CASH EQUIVALENTS AT 1-4-13	293000
CASH + CASH EQUIVALENTS AT 31-3-14	315000

183	Tasation	£ m
	Balance 1/4/13	21,000
	Charge for year	16,000
	Balance 31/3/14	(18,000)
	Cash paid	<u>19,000</u>

4)	~~Purchase of tangible fixed assets~~	~~(87,500)~~
	~~Sale of tangible fixed assets~~	~~31,000~~
		~~(56,500)~~

W2 ~~4/8~~ Additions of fixed assets:
 Purchase $190,000 \div 1.7 = 111,765$
 31/12/13 cash outflow $140,000 \div 1.6 = 87,500$
 loss on exchange

$$87,500 - 82,353 (140,000 \div 1.7) = 5,147$$

$$31/3/14 cash outflow $50,000 \div 1.5 = 33,333$$$

loss on exchange

$$33,333 - 29,412 (50,000 \div 1.7) = 3,921$$

1	Total exchange loss	$5,147 + 3,921 = 9,068$
1	Cash flow	87,500
1	Balance of creditors	33,333

W3 ~~4/8~~	Minority interest	
	Balance 1/4/13	26,000
	Current year amount	11,000
	Balance 31/3/14	(34,000)
	Dividend paid	<u>2,000</u>

b)

Financial statement ratios can provide useful measures of liquidity but an analysis of the information in the cash flow statement, particularly net cash flow generated from operations, can provide additional insights into the liquidity of Casey. It is important to look at the generation of cash and its efficient usage. An entity must generate cash from trading activity in order to avoid the constant raising of funds from non-trading sources. The company has generated cash in the period (£103,500) despite sustaining a loss (£6,000). The problem is the fact that the entity will not be able to sustain this level of cash generation if losses continue. An important measure of the capacity of the funds generated by trading is the ability to generate sufficient cash to cover the current liabilities. In the case of Casey, the cash generated from operating activities is £103,500 and the current liabilities are £75,000. Thus the cash has covered the current liabilities. Operating cash flow (£103,500) determines the extent to which Newport has generated sufficient funds to repay loans, maintain operating capability, pay dividends and make new investments without external financing. Operating cash flow appears to be healthy, partially through the release of cash from working capital. This cash flow has been used to pay finance costs, taxes and dividends. These uses of cash would be normal for any entity. The purchase of fixed assets has been financed partly by the sale of fixed assets and operating cash flow. It also seems that the issue of share capital has been utilised to repay the long term borrowings and this action seems to indicate that the long term borrowings have effectively been 'capitalised'.