

## Minster (2.5 12/06)

Minster is a publicly listed company. Details of its financial statements for the year ended 30 September 20X6, together with a comparative statement of financial position, are:

### STATEMENT OF FINANCIAL POSITION AT

|                                                  | 30 September 20X6 |              | 30 September 20X5 |              |
|--------------------------------------------------|-------------------|--------------|-------------------|--------------|
|                                                  | \$'000            | \$'000       | \$'000            | \$'000       |
| <i>Non-current assets (note (i))</i>             |                   |              |                   |              |
| Property, plant and equipment                    |                   | 1,280        |                   | 940          |
| Software                                         |                   | 135          |                   | nil          |
| Investments at fair value through profit or loss |                   | 150          |                   | 125          |
|                                                  |                   | <u>1,565</u> |                   | <u>1,065</u> |
| <i>Current assets</i>                            |                   |              |                   |              |
| Inventories                                      | 480               |              | 510               |              |
| Trade receivables                                | 270               |              | 380               |              |
| Amounts due from construction contracts          | 80                |              | 55                |              |
| Bank                                             | <u>nil</u>        |              | <u>35</u>         |              |
|                                                  |                   | 830          |                   | 980          |
| <i>Total assets</i>                              |                   | <u>2,395</u> |                   | <u>2,045</u> |
| <i>Equity and liabilities</i>                    |                   |              |                   |              |
| Equity shares of 25 cents each                   |                   | 500          |                   | 300          |
| Reserves                                         |                   |              |                   |              |
| Share premium (note (ii))                        | 150               |              | 85                |              |
| Revaluation reserve                              | 60                |              | 25                |              |
| Retained earnings                                | <u>950</u>        |              | <u>965</u>        |              |
|                                                  |                   | 1,160        |                   | 1,075        |
|                                                  |                   | <u>1,660</u> |                   | <u>1,375</u> |
| <i>Non-current liabilities</i>                   |                   |              |                   |              |
| 9% loan note                                     | 120               |              | nil               |              |
| Environmental provision                          | 162               |              | nil               |              |
| Deferred tax                                     | <u>18</u>         |              | <u>25</u>         |              |
|                                                  |                   | 300          |                   | 25           |

|                                     | 30 September 20X6 |              | 30 September 20X5 |              |
|-------------------------------------|-------------------|--------------|-------------------|--------------|
|                                     | \$'000            | \$'000       | \$'000            | \$'000       |
| <i>Current liabilities</i>          |                   |              |                   |              |
| Trade payables                      | 350               |              | 555               |              |
| Bank overdraft                      | 25                |              | 40                |              |
| Current tax payable                 | <u>60</u>         |              | <u>50</u>         |              |
| <i>Total equity and liabilities</i> |                   | 435          |                   | 645          |
|                                     |                   | <u>2,395</u> |                   | <u>2,045</u> |

### INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 20X6

|                                           | \$'000    |
|-------------------------------------------|-----------|
| Revenue                                   | 1,397     |
| Cost of sales                             | (1,110)   |
| Gross profit                              | 287       |
| Operating expenses                        | (125)     |
|                                           | 162       |
| Finance costs (note (i))                  | (40)      |
| Investment income and gain on investments | 20        |
| Profit before tax                         | 142       |
| Income tax expense                        | (57)      |
| Profit for the year                       | <u>85</u> |

The following supporting information is available:

- (i) Included in property, plant and equipment is a coal mine and related plant that Minster purchased on 1 October 20X5. Legislation requires that in ten years' time (the estimated life of the mine) Minster will have to landscape the area affected by the mining. The future cost of this has been estimated and discounted at a rate of 8% to a present value of \$150,000. This cost has been included in the carrying amount of the mine and, together with the unwinding of the discount, has also been treated as a provision. The unwinding of the discount is included within finance costs in the income statement. *This amounts to \$12000.*
- Other land was revalued (upward) by \$35,000 during the year.
- Depreciation of property, plant and equipment for the year was \$255,000.
- There were no disposals of property, plant and equipment during the year.
- The software was purchased on 1 April 20X6 for \$180,000.
- The market value of the investments had increased during the year by \$15,000. There have been no sales of these investments during the year.
- (ii) On 1 April 20X6 there was a bonus (scrip) issue of equity shares of one for every four held utilising the share premium reserve. A further cash share issue was made on 1 June 20X6. No shares were redeemed during the year.
- (iii) A dividend of 5 cents per share was paid on 1 July 20X6.

*Required*

- (a) Prepare a statement of cash flows for Minster for the year to 30 September 20X6 in accordance with IAS 7 *Statement of cash flows*. (15 marks)
- (b) Comment on the financial performance and position of Minster as revealed by the above financial statements and your statement of cash flows. (10 marks)

(Total = 25 marks)

(a) MINSTER  
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 20X6

|                                                            | \$'000 | \$'000 |
|------------------------------------------------------------|--------|--------|
| <i>Cash flows from operating activities</i>                |        |        |
| Profit before tax                                          |        |        |
| Depreciation                                               |        | 255    |
| Software amortisation (180 – 135)                          |        | 45     |
| <i>Decrease in inventories</i>                             |        | 30     |
| <i>Decrease in receivables</i>                             |        | 110    |
| <i>Decrease in payables</i>                                |        | (205)  |
| <i>Increase in amounts due from construction contracts</i> |        | (25)   |
| <i>Cash generated from operations</i>                      |        | 372    |
| Interest paid (40 – 12 (unwinding of discount))            |        | (28)   |
| Income taxes paid (W2)                                     |        | (54)   |
| <i>Net cash from operating activities</i>                  |        | 290    |
| <i>Cash flows from investing activities</i>                |        |        |
| Property, plant and equipment (W1)                         | (410)  |        |
| Software                                                   | (180)  |        |
| Investments (W3)                                           | (10)   |        |
| Investment income received (20 – 15 (investment gain))     | 5      |        |
| <i>Net cash used in investing activities</i>               |        | (595)  |
| <i>Cash flows from financing activities</i>                |        |        |
| Dividends paid (500 × 4 × 5c)                              | (100)  |        |
| 9% loan note                                               | 120    |        |
| Equity share issue (125 share cap + 140 premium) (W4)      | 265    |        |
| <i>Net cash from financing activities</i>                  |        | 285    |
| <i>Decrease in cash</i>                                    |        | (20)   |

Workings

\*

1

PROPERTY, PLANT AND EQUIPMENT – CARRYING VALUE

|                                 | \$'000       |                     | \$'000       |
|---------------------------------|--------------|---------------------|--------------|
| Bal b/f                         | 940          | Depreciation charge | 255          |
| Environmental provision         | 150          |                     |              |
| Land revaluation                | 35           |                     |              |
| Acquisitions (balancing figure) | 410          | Bal c/f             | 1,280        |
|                                 | <u>1,535</u> |                     | <u>1,535</u> |

2

INCOME TAXES DUE

|                         | \$'000     |                                     | \$'000     |
|-------------------------|------------|-------------------------------------|------------|
| Paid (balancing figure) | 54         | Bal b/f                             | 50         |
|                         |            | Charge for year                     | 57         |
| Bal c/f                 | 60         | Reduction in deferred tax provision | 7          |
|                         | <u>114</u> |                                     | <u>114</u> |

\* CASH + CASH EQUIVALENTS AT 1-10 (35-40) (5)

CASH + CASH EQUIVALENTS AT 30-9 (25)

W3

## INVESTMENTS

\$'000

BAL AT 1-10

125

ADDITIONS (BAL FIG)

10

INCREASE IN MARKET VALUE

15

BAL AT 30-9

150

W4

## STOCK ISSUES

SHARE  
CAPITAL  
\$'000

SHARE  
PREMIUM  
\$'000

BAL AT 1-10

300

85

BONUS ISSUE

75

(75)

CASH ISSUE

125

140

BAL AT 30-9

500

150