

**SECTION A**      Answer **TWO** Questions from Three

**QUESTION ONE**

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

Haven Group

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012**

|                                          | £m           |
|------------------------------------------|--------------|
| Turnover                                 | 459          |
| Cost of sales                            | <u>(410)</u> |
| Gross profit                             | 49           |
| Other income                             | 17           |
| Distribution costs                       | <u>(18)</u>  |
| Administrative expenses                  | <u>(15)</u>  |
| Group operating profit                   | 33           |
| Interest payable                         | <u>(5)</u>   |
| Profit on ordinary activities before tax | 28           |
| Tax on ordinary activities               | <u>(6)</u>   |
| Profit on ordinary activities after tax  | 22           |
| Minority interest                        | <u>(9)</u>   |
| Profit for the year                      | <u>13</u>    |

Haven Group  
**BALANCE SHEET AS AT 31 DECEMBER 2012**

|                                                                 | 2012<br>£m  | 2011<br>£m   |
|-----------------------------------------------------------------|-------------|--------------|
| <i>Fixed assets</i>                                             |             |              |
| Tangible assets                                                 | 174         | 180          |
| Goodwill                                                        | <u>40</u>   | <u>50</u>    |
|                                                                 | <u>214</u>  | <u>230</u>   |
| <i>Current assets</i>                                           |             |              |
| Stock                                                           | 76          | 89           |
| Debtors                                                         | 67          | 192          |
| Bank                                                            | <u>285</u>  | <u>193</u>   |
|                                                                 | <u>428</u>  | <u>474</u>   |
| <i>Creditors: amounts falling due within one year:</i>          |             |              |
| Creditors                                                       | (69)        | (96)         |
| Taxation                                                        | <u>(6)</u>  | <u>(15)</u>  |
|                                                                 | <u>(75)</u> | <u>(111)</u> |
| <i>Net current assets</i>                                       | <u>353</u>  | <u>363</u>   |
| <i>Total assets less current liabilities</i>                    | <u>567</u>  | <u>593</u>   |
| <i>Creditors: amounts falling due after more than one year:</i> |             |              |
| Loan                                                            | <u>(15)</u> | <u>(12)</u>  |
|                                                                 | <u>552</u>  | <u>581</u>   |
| Minority interest                                               | <u>(30)</u> | <u>(46)</u>  |
|                                                                 | <u>522</u>  | <u>535</u>   |
| Capital and reserves                                            |             |              |
| Share capital                                                   | 325         | 298          |
| Profit and loss reserve                                         | 185         | 227          |
| Revaluation reserve                                             | <u>12</u>   | <u>10</u>    |
|                                                                 | <u>522</u>  | <u>535</u>   |

The following information relates to the financial statements:

- The tangible assets in the balance sheet comprise the following:

|                                 | £m         |
|---------------------------------|------------|
| Carrying value 1 January 2011   | 180        |
| Additions at cost               | 38         |
| Gains on property revaluation   | 2          |
| Disposals                       | (28)       |
| Depreciation                    | (18)       |
| Carrying value 31 December 2012 | <u>174</u> |

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

The additions comprised imported plant & machinery from an overseas supplier on 30 June 2012. The cost was 190 million pesos with 140 million pesos being paid on 31 October 2012 and the balance to be paid 31 January 2013.

Rates of exchange were as follows:

|                  | Pesos to £1 |
|------------------|-------------|
| 30 June 2012     | 5           |
| 31 October 2012  | 4.8         |
| 31 December 2012 | 4.5         |

Exchange gains and losses are included in administrative expenses.

- The movement on reserves was as follows:

|                              | Profit and<br>Loss<br>£m | Revaluation<br>Reserve<br>£m |
|------------------------------|--------------------------|------------------------------|
| Balance 1 January 2012       | 227                      | 10                           |
| Profit for year              | 13                       |                              |
| Gain on property revaluation |                          | 2                            |
| Dividends paid               | (55)                     |                              |
| Balance 31 December 2012     | <u>185</u>               | <u>12</u>                    |

### Required:

- Prepare a group cash flow statement for the year ended 31 December 2012 in accordance with FRS1, 'Cash Flow Statements', using the indirect method.

(25 marks)

- Evaluate the usefulness and limitations of the cash flow statement.

(5 marks)

**(TOTAL 30 MARKS)**

# HAVEN GROUP

## CASHFLOW STATEMENT FOR Y/E 31-12-12

£m

£m

### CASHFLOWS FROM OPERATING ACTIVITIES:

|                                     |     |
|-------------------------------------|-----|
| Group operating profit              | 33  |
| Depreciation                        | 18  |
| Gain on sale of fixed asset (31-28) | (3) |
| Exchange loss (W2)                  | 2   |
| Impairment of goodwill (50-40)      | 10  |

|                                        |      |
|----------------------------------------|------|
| Decrease in stocks (76-89)             | 13   |
| Decrease in debtors (67-197) (W2)      | 125  |
| Decrease in trade creditors (69-11-96) | (38) |

Cash generated from operations 160

Interest paid (5)  
Tax paid (W1) (15)

NET CASHFLOW FROM OPERATING ACTIVITIES 140

### CASHFLOWS FROM INVESTING ACTIVITIES:

|                                   |           |
|-----------------------------------|-----------|
| Purchase of tangible fixed assets | (29)      |
| Sale of tangible fixed assets     | <u>31</u> |

NET CASHFLOW FROM INVESTING ACTIVITIES 2

### CASHFLOWS FROM FINANCING ACTIVITIES:

|                                         |          |
|-----------------------------------------|----------|
| Ordinary dividend paid                  | (55)     |
| Dividend paid to minority interest      | (25)     |
| Proceeds from issue of shares (325-298) | 27       |
| Proceeds from issue of loan (15-17)     | <u>3</u> |

NET CASHFLOW FROM FINANCING ACTIVITIES (50)

INCREASE IN CASH + CASH EQUIVALENTS 92

CASH + CASH EQUIVALENTS AT 1-1-12 193

CASH + CASH EQUIVALENTS AT 31-12-12 285

(W1)

~~W1~~

Taxation

Bal 1/1/12

15

Charge for year

6

Bal 31/12/12

(6)

Cost paid

15

~~4) Purchase of tangible fixed assets~~

~~(29)~~

~~Sale of tangible fixed assets~~

~~31~~

~~2~~

~~29~~

(W2)

~~W2~~

Additions of fixed assets

Purchase 190  $\div$  5 =

38m

31/10/12 cash outflow 140  $\div$  4.8 = 29m

Loss on exchange

29 - 28 (140  $\div$  5)

= 1m

31/12/12 Creditors 50  $\div$  4.5

= 11m

Loss on exchange

11 - 10 (50  $\div$  5)

= 1m

Total exchange loss = 1 + 1

= 2m

Cash flow

29m

Decrease in creditors

11m

(W3)

~~W3~~

Minority interest

Bal 1/1/12

46

Current year

9

Bal 31/12/12

(30)

Dividend paid

25

## b) Usefulness

- assist users in making judgements about future cash flows
- gives indication of relationship between profitability and cash generating ability
- in conjunction with BS provides information on liquidity + solvency
- others

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## Limitations

- based on historical information ∴ difficult to assess future cash flows
- scope for manipulation
- others