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Cash Flow Marking Schemes

2013 Paper – Section 1 – Question 4

9. Budgeting

Murray Ltd is preparing to set up business on 1/1/2014 to manufacture a single product. Below is the sales budget for the company for the first 6 months of 2014.

Sales Budget

	January	**February**	**March**	**April**	**May**	**June**
Sales units	7,000	8,000	10,000	9,000	10,500	11,000
Sales Revenue	€210,000	€240,000	€300,000	€270,000	€315,000	€330,000

(i) Each product unit requires 5 kgs of material X, which costs €2.00 per kg.

(ii) Stocks of finished goods are maintained at 70% of the following month's sales requirement.

(iii) Stocks of raw materials, sufficient for 20% of the following month's requirements in kgs, are held at the end of each month.

(iv) The cash collection pattern from sales is expected to be:

Cash Customers 40% of sales revenue will be for immediate cash.

Credit Customers 60% of sales revenue will be from credit customers. These debtors will pay their bills, 50% in the month after sale and the remainder in the second month after sale.

(v) One month's credit is received from suppliers.

(vi) Expenses of the business will be settled as follows:

Expected Costs Wages €25,000 per month, payable as incurred.
Variable overheads €5 per unit, payable as incurred.
Fixed overheads (including depreciation) €30,000 per month,

payable as incurred.

	payable as incurred.
Capital Costs	Equipment will be purchased in January costing €45,000 which will have a useful life of 5 years. To finance this purchase a loan of €30,000 will be secured at 10% per annum. Interest to be paid monthly, but capital loan repayments will not commence until July 2014.

Required:

(a) Prepare a Production Budget for the four months January to April, 2014.

(b) Prepare a Raw Materials Purchases Budget (in units and €) for the four months January to April, 2014.

(c) Prepare a Cash Budget for the 4 months January to April, 2014.

(d) Prepare a budgeted Trading and Profit and Loss Account for the 4 months ending 30/4/2014 (if the budgeted cost of a unit of finished goods is €25).

(e) (i) What useful information is available to Murray Ltd from the completed cash budget?

(ii) Explain what is meant by a Capital budget.

(80 marks)

2012 Paper – Section 2 – Question 7 – Marking Scheme

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(a)

(i) Abridged Profit and Loss account for the year ending 31/12/2011

	€	
Operating profit	337,000	
Investment Income	3,000	[3]
Less debenture interest	(25,000)	[3]
Profit before tax	315,000	
Taxation	(110,000)	[3]
Profit after tax	205,000	
Dividends	(40,000)	[3]
Retained profit	165,000	
Profit and loss balance 01/01/2011	31,000	[3]
Profit and loss balance 31/12/2011	196,000	[3]

(ii) Reconciliation of operating profit to net cash flow from operating activities

		€	
Operating profit		337,000	[2]
Depreciation charge for the year	**W1**	72,000	[4]
Profit on sale of buildings		(13,000)	[2]
Decrease in stock		24,000	[3]
Increase in debtors		(200,000)	[3]
Increase in creditors		14,000	[3]
Net cash inflow from operating activities		234,000	

Cash Flow statement of Danton plc for the year ended 31/12/2011

Operating Activities		**€**	**€**
Net cash inflow from operating activities			234,000 [2]
Return on Investment and Servicing of Finance [1]			
Investment income received		2,000 [3]	
Interest on debentures paid		(30,000) [3]	(28,000)
Taxation [1]			
Tax paid	**W3**		(45,000) [3]
Capital expenditure and financial investment [1]			
Receipts from sale of buildings	**W4**	101,000 [5]	
Payments to acquire buildings	**W5**	(160,000) [5]	
Payments to acquire machinery	**W6**	(119,000) [4]	(178,000)
Equity dividends paid [1]			
Dividends paid			(40,000) [3]
Net cash **outflow** before liquid resources and financing			(57,000)
Management of liquid resources [1]			
Purchase of government securities			(60,000) [3]
Financing [1]			
Repayment of debentures		(50,000) [3]	
Receipts from the issue of ordinary shares		200,000 [2]	
Receipts from share premium		20,000 [2]	170,000
Increase in Cash			53,000 [4]

Reconciliation of net cash to movement in net debt

	€	
Increase in cash	53,000	[1]
Cash used to purchase liquid resources	60,000	[1]
Repurchase of debentures	50,000	[1]
Change in net debt	163,000	
Net debt at 01/01/2011	(228,000)	[1]
Net debt at 31/1/2/2011	(65,000)	[1]

Workings

1.	Depreciation	225,000 – 165,000 + 12,000	=	72,000
2.	Investment income	2000 + 3000 – 3000	=	2,000
3.	Taxation	110,000 + 45,000 - 110,000	=	45,000
4.	Sale of buildings	90,000 + 13,000 - 2,000(dep)	=	101,000
	Depreciation on disposed building	110,000 + 12,000 – 120,000	=	2,000
5.	Purchase of buildings	850,000 – [780,000 - 90,000]	=	160,000
6.	Purchase of machinery	349,000 – 230,000	=	119,000

(b)

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(i)

Danton plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €337,000 was made but the increase in cash for the year was €53,000.

Reasons:

Credit sales earn profit but do not increase cash. Debtors increased by €200,000

Non-cash gains/losses increase/decrease profit but not cash. Profit on sale of buildings/ depreciation €13,000/€72,000.

Sale/Purchase of fixed assets Increase/decrease cash but not profit. Receipts €101,000, Payments €160,000 and €119,000

Introduction/withdrawal of capital increases/decreases cash but not profit. Receipts €220,000, payments €50,000

(ii) Responsibility of Directors

To comply with the Companies Acts
To keep proper accounting records enabling financial statements to be prepared
Prepare <u>annual</u> financial statements
Select suitable accounting policies
Sign financial statements
Safeguard the assets of the company
Publish Final Accounts and Cash Flow Statement at least once a year
Present an <u>Annual</u> Report to shareholders at <u>AGM</u> to include:

- Directors' report
- Auditor's Report
- Financial Statements

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2010 Paper – Section 1 – Question 2 – Marking Scheme

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(a)

Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating Profit	179,000	[2]
Depreciation charge for the year	65,000	[3]
Loss on sale of machinery	10,000	[5]
Increase in Stock	(18,000)	[2]
Increase in Debtors	(8,000)	[2]
Increase in Creditors	25,000	[2]
Net Cash inflow from operating activities	253,000	[2]

Cash flow Statement of Norris Plc for the year ended 31/12/2009

		€		€	
Operating activities					
Net Cash Inflow from operating activities				253,000	[1]
Return on investments and servicing of finance	[1]				
Interest paid				(13,000)	[3]
Taxation	[1]				
Corporation Tax paid				(38,000)	[3]
Capital expenditure and financial investment	[1]				
Investments		(35,000)	[2]		
Payment to acquire tangible fixed assets		(75,000)	[2]		
Receipts from sale of fixed assets		30,000	[2]	(80,000)	

Equity dividends paid [1]				
Dividends paid during the year			(64,000)	[2]
Net Cash inflow before Liquid Resources and Financing			58,000	
Management of liquid resources [1]				
Purchase of Government Securities			(15,000)	[1]
Financing				
Repayment of Debentures	(80,000)	[1]		
Receipt from Issue of Shares	20,000	[1]		
Receipt from Share Premium	3,000	[1]	(57,000)	
Decrease in cash			(14,000)	[2]

Reconciliation of net cash flow to movement in net debt

Decrease in Cash during the period	(14,000)	[1]
Cash used to purchase liquid resources	15,000	[1]
Cash used to repurchase of debenture loan	80,000	
Change in Net Debt	81,000	
Net Debt 1/1/2009	(212,000)	[1]
Net Debt 31/12/2009	(131,000)	[1]

(b) [6]

It shows the cash inflows and outflows during the past year
It shows that profits do not always equal cash
It aids financial planning/ it is used to predict future cash flows
It provides information to assess current liquidity

[6]

Cash expense – reduces both profit and cash e.g. wages
Non-cash expense – reduces profit but not cash e.g. depreciation, provision for bad debts

Workings

Depreciation

Depreciation on Machinery	55,000	
Depreciation on Buildings	10,000	
Depreciation for the year		65,000

Loss on disposal of fixed assets

Cost of machine disposed	70,000	
Depreciation on disposed machine	30,000	
Book value	40,000	
Less depreciation on disposal	30,000	
Loss on disposal		10,000

Taxation

Taxation due 31/12/2008	40,000	
Taxation for year 2009	43,000	
	83,000	
Less taxation due 31/12/2009	(45,000)	38,000

Interest

Interest for year 2009	18,000	
Less interest due 31/12/2009	(5,000)	13,000

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Cash Flow Marking Schemes

2008 Paper - Section 2 – Question 6 – Marking Scheme

Taxation [1]					
Tax paid	W 3			(51,000)	[4]
Capital Expenditure and Financial investment [1]					
Sale of fixed assets		40,000	[3]		
Purchase of fixed assets		(190,000)	[3]		
Sale of investments		100,000	[3]	(50,000)	
Equity Dividends paid [1]					
Dividends paid				(54,000)	[3]
Net cash outflow before liquid resources and financing				(64,000)	
Management of Liquid Resources [1]					
Government securities				(70,000)	[3]
Financing [1]					
Issue of Debentures		50,000	[3]		
Issue of ordinary shares		60,000	[3]		
Share premium		18,000	[3]	128,000	
Decrease in Cash				**(6,000)**	[3]

Reconciliation of net cash to movement in net debt

	€	
Decrease in cash	(6,000)	[1]
Cash used to purchase liquid resources	70,000	[1]
Cash received from issue of debentures	(50,000)	[1]
Change in net debt	14,000	
Net debt at 1/1/2007	(84,000)	[1]
Net debt at 31/12/2007	(70,000)	[1]

Taxation [1]						
Tax paid	W 3				(51,000)	[4]
Capital Expenditure and Financial investment [1]						
Sale of fixed assets		40,000	[3]			
Purchase of fixed assets		(190,000)	[3]			
Sale of investments		100,000	[3]		(50,000)	
Equity Dividends paid [1]						
Dividends paid					(54,000)	[3]
Net cash outflow before liquid resources and financing					(64,000)	
Management of Liquid Resources [1]						
Government securities					(70,000)	[3]
Financing [1]						
Issue of Debentures		50,000	[3]			
Issue of ordinary shares		60,000	[3]			
Share premium		18,000	[3]		128,000	
Decrease in Cash					**(6,000)**	[3]

Reconciliation of net cash to movement in net debt

	€	
Decrease in cash	(6,000)	[1]
Cash used to purchase liquid resources	70,000	[1]
Cash received from issue of debentures	(50,000)	[1]
Change in net debt	14,000	
Net debt at 1/1/2007	(84,000)	[1]
Net debt at 31/12/2007	(70,000)	[1]

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(b)

(i) [10]

Credit sales/purchases affect profit but do not affect cash.
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.

(ii) [5]

The Accounting Standards Board issues new accounting standards called Financial Reporting Standards (FRS). It also amends and withdraws old accounting standards.

FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.
It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.

Workings

1. Depreciation	100,000 - 30,000 - 220,000	=	150,000
2. Profit on disposal	60,000 - 30,000 - 40,000	=	10,000
3. Taxation	39,000 + 60,000 - 48,000	=	51,000

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Accounting Higher Level
Cash Flow Marking Schemes

2006 Paper – Section 1 - Question 3 – Marking Scheme

(a) Reconciliation of operating profit to net cash flow from operating activities

	€	
Operating profit	140,000	(2)
Depreciation charges for the year	75,000	(4)
Profit on sale of machinery	(3,000)	(6)
Increase in stock	(15,000)	(2)
Increase in debtors	(10,000)	(2)
Increase in creditors	22,000	(2)
Net cash inflow from operating activities	209,000	(2)

Cash Flow Statement of Butler Plc for the year ended 31/12/2005

			€	
Operating Activities				
Net cash inflow from operating activities			209,000	(1)
Returns on investments and servicing of finance				
Interest paid			(6,800)	(3)
Taxation				
Corporation tax paid			(38,000)	(3)
Capital expenditure and financial investment				
Investments	(30,000)	(3)		
Payments to acquire tangible fixed assets	(75,000)	(2)		
Receipts from sale of fixed assets	35,000	(2)	(70,000)	
Equity dividends paid				
Dividends paid during the year			(55,000)	(3)
Net cash **inflow** before liquid resources and financing			39,200	
Management of Liquid Resources				
Purchase of Government securities			(12,000)	(2)

Financing				
Repayment of debentures	(105,000)	(1)		
Receipts from issue of shares	40,000	(1)		
Receipts from share premium	22,000	(1)		(43,000)
Decrease in cash			(2)	(15800)

Reconciliation of net cash flow to movement in net debt		
Decrease in cash during period	(15,800)	(1)
Cash used to purchase Government securities	12,000	
Cash used to purchase debentures	105,000	(1)
Change in net debt	101,200	(1)
Net debt at 1/1/2005	(169,000	
Net debt at 31/12 2005	(67,800)	(1)
		8

(b) To show the cash inflows and outflows during the past year
To help predict future cash flows
To help financial planning
To provide information to assess liquidity
To show that profits do not equal cash
To comply with legal requirements

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(c) **Non-cash expense** Depreciation, increase in provision for bad debts
Non-cash gain Reduction in provision for bad debts, profit on sale of assets

Workings

Depreciation

Depreciation on machinery for year		60,000	
Depreciation on buildings for year		15,000	
Total depreciation for year			75,000

Profit/ Loss on disposal of fixed assets

Amount received for machine		35,000	
Cost of machine disposed	70,000		
Depreciation on disposed machine [180,000 + 60,000 – 202,000]	38,000		
Book value		(32,000)	
Profit on sale of machinery			3,000

Dividends paid

Dividends due at 31/12/2004	34,000	
Add interim dividends 2005	21,000	
Amount paid during 2005		55,000

Taxation

Taxation due at 31/12/2004	43,000	
Taxation for year 2005	45,000	
	88,000	
Less taxation due 31/12/2005	(50,000)	
Taxation paid		38,000

Interest

Interest for year 2005	8,000	
Less interest due 31/12/2005	(1,200)	
Interest paid		6,800