

ACCOUNTING TUTOR PACK

ANSWER TO 10.6

(Note: all figures in £000s)

Operating activities:

Operating profit (before tax and interest) £970*, add depreciation for year £530**, add loss on sale of fixed assets £30, less increase in stock £1,200, less increase in debtors £600, add increase in creditors £100, total = - £170 (cash outflow)

Returns on investments and servicing of finance:

Interest paid £20.

Taxation:

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Capital expenditure and financial investment:

Payments to acquire fixed assets £2,480, receipts from sales of fixed assets £270, total £2,210.

Equity dividends paid:

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Financing:

Issue of share capital (at a premium) £2,000, issue of debentures £1,000, total £3,000.

Increase in cash:

£600 (bank overdraft at start of year £250; bank balance at end of year £350).

* Operating profit calculation: net profit for year £950, interest paid £20, total £970.

** Depreciation for year calculation: depreciation at 31 December 20-7 £770, less depreciation on assets now sold £200, sub-total £570, deducted from depreciation at 31 December 20-8 £1,100, equals depreciation for year £530.