

Paul Robbins training and consultancy

Financial Statements of Limited Companies

Statement of Cash Flows – Worked Example **Model Answer**

You have been asked to prepare the Statement of Cash Flows and Statement of Changes in Equity for Wembley Ltd for the year ended 31 December 20X2.

The most recent Statement of Profit or Loss and Statement of Financial Position (with comparatives for the previous year) of Wembley Ltd are set out below.

Wembley Ltd

Statement of Profit or Loss for the Year Ended 31 December 20X2

Continuing Operations	£000
Revenue	868
Cost of Sales	(473)
Gross Profit	395
Dividends Received	12
Profit on Disposal of Property, Plant and Equipment	25
Distribution Costs	(189)
Administrative Expenses	(150)
Profit from Operations	93
Finance Costs	(14)
Profit Before Tax	79
Tax	(31)
Profit for the Year from Continuing Operations	48

Wembley Ltd

Statement of Financial Position as at 31 December 20X2

	20X2 £000	20X1 £000
ASSETS		
Non-Current Assets		
Property Plant and Equipment	265	180
Current Assets		
Inventories	94	62
Trade Receivables	89	78
Cash and Cash Equivalents	0	15
	183	155
Total Assets	448	335
EQUITY AND LIABILITIES		
Equity		
Share Capital	200	150
Share Premium	40	0
Retained Earnings	54	44
Total Equity	294	194
Non-Current Liabilities		
Bank Loans	45	70
	45	70
Current Liabilities		
Trade Payables	53	45
Tax Liabilities	31	26
Bank Overdraft	25	0
	109	71
Total Liabilities	154	141
Total Equity and Liabilities	448	335

Further Information:

- *The total depreciation charge for the year was £24,000*
- *Property, Plant and Equipment costing £35,000 with accumulated depreciation of £15,000 was sold in the year*
- *All sales and purchases were on credit. Other expenses were paid for in cash*
- *A dividend of £38,000 was paid during the year.*

Required:

- *Draft a Reconciliation of Profit Before Tax to Net Cash from Operating Activities for Wembley Ltd for the year ended 31 December 20X2*
- *Draft the Statement of Cash Flows for Wembley Ltd for the year ended 31 December 20X2*
- *Draft the Statement of Changes in Equity for Wembley Ltd for the year ended 31 December 20X2*

Reconciliation of Profit Before Tax to Net Cash from Operating Activities

	£000
<i>Profit Before Tax</i>	<i>79</i>
<i>Adjustments For:</i>	
<i>Depreciation</i>	<i>24</i>
<i>Profit on Disposal of PPE</i>	<i>(25)</i>
<i>Finance Costs</i>	<i>14</i>
<i>Adjustment in Respect of Inventories</i>	<i>(32)</i>
<i>Adjustment in Respect of Trade Receivables</i>	<i>(11)</i>
<i>Adjustment in Respect of Trade Payables</i>	<i>8</i>
<i>Dividends Received</i>	<i>(12)</i>
<i>Cash Generated By Operations</i>	<i>45</i>
<i>Tax Paid</i>	<i>(26)</i>
<i>Interest Paid</i>	<i>(14)</i>
<i>Net Cash From Operations</i>	<i>5</i>

Statement of Cash Flows for the Year Ended 31 December 20X2

	£000
Net Cash From Operations	5
Investing Activities	
Dividends Received	12
Proceeds on Disposal of PPE	45
Purchases of PPE	(129)
Net Cash Used In / From Investing Activities	(72)
Financing Activities	
Reduction in Bank Loan	(25)
Proceeds of Share Issue	90
Dividends Paid	(38)
Net Cash Used In / From Financing Activities	27
Net Increase / Decrease in Cash and Cash Equivalents	(40)
Cash and Cash Equivalents at Beginning of the Year	15
Cash and Cash Equivalents at the End of the Year	(25)

Statement of Changes in Equity for the Year Ended 31 December 20X2

	Share Capital £000	Share Premium £000	Revaluation Surplus £000	Retained Earnings £000	Total Equity £000
<i>Balance at Start of the Year</i>	150	0	0	44	194
<u><i>Changes in Equity:</i></u>					
<i>Profit for the Year</i>				48	48
<i>Dividends</i>				(38)	(38)
<i>Issue of Share Capital</i>	50	40			90
<i>Balance at end of the Year</i>	200	40		54	294