Finance - Cashflows

Torbryan plc's income statement for the year ended 31 December 2007 and the balance sheets as at 31 December 2006 and 2007 are as follows:

Income statement for the year ended 31 December 2007

	£m
Revenue	576
Cost of sales	(307)
Gross profit	269
Distribution expenses	(65)
Administrative expenses	(26)
	178
Other operating income	21
Operating profit	199
Interest receivable	17
	216
Interest payable	(23)
Profit before taxation	193
Taxation	(46)
Profit for the year	147

Balance sheets as at 31 December 2006 and 2007

	2006 £m	2007 £m
Non-current assets		
Property, plant and equipment		
Land and buildings	241	241
Plant and machinery	309	325
	550	566
Current assets		
Inventories	44	41
Trade receivables	121	139
	165	180
Total assets	715	746
Equity		
Called-up ordinary share capital	150	200
Share premium account	–	40
Retained earnings	26	123
	176	363
Non-current liabilities		
Borrowings – Loan notes	400	250
Current liabilities		
Borrowings (all bank overdraft)	68	56
Trade payables	55	54
Taxation	16	23
	139	133
Total equity and liabilities	715	746

During 2007, the business spent £95m on additional plant and machinery. There were no other non-current-asset acquisitions or disposals. A dividend of £50m was paid on ordinary shares during the year. The interest receivable revenue and the interest payable expenses for the year were equal to the cash inflow and outflow respectively.

Cash flow stmt

Torbryan plc
Cash flow statement for the year ended 31 December 2007

	£m	£m
Cash flows from operating activities		
Profit before taxation (after interest) (see Note 1 below)		193
Adjustments for:		
Depreciation (Note 2)		79
Interest receivable (Note 3)		(17)
Interest payable (Note 4)		23
		278
Increase in trade receivables (139 – 121)		(18)
Decrease in trade payables (55 – 54)		(1)
Decrease in inventories (44 – 41)		3
Cash generated from operations		262
Interest paid		(23)
Taxation paid (Note 5)		(39)
Dividend paid		(50)
Net cash from operating activities		150
Cash flows from investing activities		
Payments to acquire tangible non-current assets	(95)	
Interest received (Note 3)	17	
Net cash used in investing activities		(78)
Cash flows from financing activities		
Repayments of loan notes (Note 6)	(150)	
Issue of ordinary shares (Note 7)	90	
Net cash used in financing activities		(60)
Net increase in cash and cash equivalents		12
Cash and cash equivalents at 1 January 2007 (Note 8)		(68)
Cash and cash equivalents at 31 December 2007		(56)

To see how this relates to the cash of the business at the beginning and end of the year it can be useful to provide a reconciliation as follows:

Analysis of cash and cash equivalents during the year ended 31 December 2007

	£m
Overdraft balance at 1 January 2007	(68)
Net cash inflow	12
Overdraft balance at 31 December 2007	(56)

Finance - Cashflows

Since there were no disposals, the depreciation charges must be the difference between the start and end of the year's plant and machinery (non-current assets) values, adjusted by the cost of any additions.

	£m
Carrying amount at 1 January 2007	309
Additions	95
	404
Depreciation (balancing figure)	(79)
Carrying amount at 31 December 2007	325

Taxation is paid by companies 50 per cent during their accounting year and 50 per cent in the following year. Thus the 2007 payment would have been half the tax on the 2006 profit (that is, the figure that would have appeared in the current liabilities at the end of 2006), plus half of the 2007 taxation charge (that is, $16 + (\frac{1}{2} \times 46) = 39$). Probably the easiest way to deduce the amount paid during the year to 31 December 2007 is by following this approach:

	£m
Taxation owed at start of the year (from the balance sheet as at 31 December 2006)	16
Taxation charge for the year (from the income statement)	46
	62
Less Taxation owed at the end of the year (from the balance sheet as at 31 December 2007)	(23)
Taxation paid during the year	39

The share issue raised £90m, of which £50m went into the share capital total on the balance sheet and £40m into share premium.

What does this cashflow stmt tell us?

- Tells us how the business has generated cash for the period and where the cash has gone
- Net cash flow from operation is strong, larger then the profit for the year figure, expected as depreciation deducted in arriving at profit
- Working capital absorbed some cash - expansion of activity re sales revenue for the year
- Some net outflows of cash for investing activities not unusual as many non-current assets have limited lives & need replacing
- Fairly major outflow of cash to redeem borrowings, partly offset by the proceeds of a share issue
- Together with plough-back profit from trading there has been a significant shift in the equity / borrowings balance