

CASH FLOW STATEMENT

06 MARCH 2014



Lesson Description

In this lesson we:

- Differentiate between the three parts of the cash flow statement
- Discuss how to complete note 1 to the cash flow statement – the reconciliation between profit before tax and cash generated from operations



Summary

Cash Flows from Operating Activities

Relates to the day-to-day running of the business

Cash Flows from Investing Activities

Relates to the sale and purchase of non-current assets (tangible assets and financial assets)

Cash Flows from Financing Activities

Relates to the issuing of shares, taking out of loans and repayment of loans

These three sections appear on the face of the cash flow statement!

Steps in Completing Note 1

1. Start with Profit before tax (usually you need to work this out in some way!)
2. Add back depreciation
3. Add back interest expense
4. This gives you Operating profit before changes in working capital
5. Now calculate your changes in working capital:
 - a. Change in inventory (increase / decrease)
 - b. Change in Trade and other receivables (increase / decrease)
 - c. Change in Trade and other payables (increase / decrease)
 - d. Remember the signs!
 - e. Remember to exclude interest, dividends and SARS (income tax) from the calculations! They have their own special place on the face of the cash flow statement.



Test Yourself

Question 1

For each of the following, state whether they would fall under:

A – Cash flows from operating activities

B – Cash flows from investing activities

C – Cash flows from financing activities.

- 1.1. The business issues 500 000 shares at a value of R15 per share.
- 1.2. The business purchases stationery.
- 1.3. The business purchases a new printer.
- 1.4. The business borrows R120 000 from ABSA.
- 1.5. The business earns money from rendering a service.
- 1.6. The business repays R20 000 of the loan.

Question 2

The SARS assessment for ABC Limited indicates that its income tax for the year amounts to R270 000. If the company is taxed at a rate of 30% of profit before tax, the amount that will be included in the cash flow statement as the first item in note 1 is:

- A – R81 000
- B – R900 000
- C – R630 000
- D – R300 000


Improve your Skills
Question 1

You have been presented with the following financial information for Posh Limited for the year ended 30 June 2013.

- 1) Extract of balances from the post-closing trial balance of Posh Limited as at 30 June 2013. (Comparative figures have been given).

	2013 R	2012 R
Ordinary share capital	3,100,000	2,740,000
Retained income	677,000	403,720
Loan: Generous Bank	2,700,000	1,980,000
Vehicles	2,450,000	2,780,000
Accumulated depreciation on vehicles	836,000	481,000
Equipment	5,302,000	3,980,000
Accumulated depreciation on equipment	1,974,000	1,613,000
Inventories	513,000	546,000
Net trade debtors	1,988,000	1,524,000
Bank (favourable)	?	155,500
Cash float	3,500	4,500
Trade creditors	1,315,000	1,183,000
SARS – income tax (Dr)	256,280	0
SARS – income tax (Cr)	0	188,000
Shareholders for dividends	31,000	238,000

- 2) Extract from the income statement of Posh Limited for the year ended 30 June 2013.

	R
Interest on loan	468,000
Depreciation on vehicles	411,000
Depreciation on equipment	361,000
Profit after tax	575,280
Profit before tax	?

- 3) Extract from the notes to the financial statements as at 30 June 2013.

Ordinary share dividends	302,000
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- 4) Additional shares were issued during the year.
- 5) Interest on the loan is NOT capitalised.
- 6) Some of the vehicles were sold during the year at carrying value. No new vehicles were purchased.
- 7) No equipment was disposed of during the year.
- 8) Income tax is calculated at 28% of net profit.

Answer Sheet

Notes to the Cash Flow Statement for the year ended 30 June 2013

1. Reconciliation between profit before taxation and cash generated from operations	R
Profit Before tax	
Adjustment in respect of	
Depreciation	
Interest expense	
Operating profit before changes in capital	
Changes in working capital	
_____ in inventory (
_____ in debtors (
_____ in creditors (
Cash generated from operations	

You can use this information to prepare the full Cash Flow Statement as well!

Prepare the cash flow statement with notes for Posh Limited for the year ended 30 June 2013.

	Note	R
Cash flows from operating activities		
Cash generation from operations	1	
Interest paid		(468 000)
Dividends paid	2	
Normal tax paid	3	
Cash flows from investing activities	4	
Purchase of non-current assets		
Proceeds of sale of non-current assets		
Cash flows from financing activities		
Proceeds from issue of share capital		
Proceeds from long-term loan		
Net change in cash and cash equivalents		
Cash and cash equivalents: beginning of year		160 000
Cash and cash equivalents: the end of year		

notes for...

2. Dividends paid	R

3

3. Taxation paid	R

3

4. Cash flows from investing activities	R
Purchase of non-current assets	
Proceeds of sale of non-current assets	

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