CASH FLOW STATEMENTS 18 APRIL 2013

Lesson Description

In this lesson we:

- Consider the users of financial statements and its purpose
- Look at the format of the cash flow statements (the components)
- Discuss preparing the cash flow statement

Key Concepts

Introduction

The cash flow statement reflects the movement of cash within an enterprise during a specific period. The Companies Act stipulates that a cash flow statement must be part of the company's financial statements

Users of Financial Statements and its Purpose

There are four main financial statements which companies prepare, namely:

- Income statement
- Balance sheet
- Cash flow statement
- Statement of changes in equity

For the purposes of the curriculum we only need to know how to prepare the first three. We first prepare the income statement, then the balance sheet and thereafter the cash flow statement.

INCOME STATEMENT → BALANCE SHEET → CASH FLOW STATEMENT

The purpose of doing the cash flow statement is to:

- Determine the cash inflows for the financial period and their sources
- Determine the cash outflows for the financial period and what it was spent on
- Determine the net effect of the changes in cash
- Prepare it as part of the published financial statements of a public company
- Help assess the liquidity of the company
- How were capital developments projects financed?
- Does the company generate sufficient cash from its operations to maintain its current operating capacity

Some users of the Cash Flow Statement:

- Management
- Directors
- Banks
- Investors

Format of the Cash Flow Statement (Components)

Cash Flow Statement

- Cash flows from operating activities
  - The most common source of cash for a company. It involves the buying and selling of inventory, receipts from debtors, payments to creditors and the paying of expenses
    - **Inflows**
      - Money received from sales
      - Money received from other incomes
    - **Outflows**
      - Money paid for stock
      - Money paid for expenses
      - Money paid for tax
      - Money paid for dividends
- Cash flows from investing activities
  - Cash changes as a result of buying and selling of tangible / fixed assets and any changes in investments i.e. Fixed deposits
    - **Inflows**
      - Money received from the sale of assets
      - Fixed deposits maturing
    - **Outflows**
      - Money paid for replacing tangible / fixed assets
      - Money paid for buying new assets
- Cash flows from financing activities
  - Cash changes as a result of obtaining financing and paying off loans/issuing of shares
    - **Inflows**
      - Money received from issuing shares
      - Money received from obtaining loans
    - **Outflows**
      - Money used for repaying loans

Preparing the Cash Flow Statement

The Cash Flow statement consists of a face and the associated notes. These are prepared after the Income statement and the Balance sheet for the current year have been completed.

The following must be available before a Cash Flow Statement can be prepared

Current Income Statement

Current Balance Sheet & Notes

Previous Balance Sheet & Notes

→ Cash Flow Statement & Notes

Steps in Preparing the Cash Flow Statement

1. **Calculate the cash generated from operations by considering the following:**

- Net profit before tax
- Depreciation (non cash item)
- Interest Expense (Financing Expense)

→ Information obtained from the income statement

- Changes in inventory. Increase (outflow) , decrease (inflow)
- Changes in trade and other receivables. Increase (outflow) , decrease (inflow)
  Exclude SARS INCOME TAX (DR BALANCE)
- Changes in trade and other payables. Increase (inflow) , decrease (outflow)
  Exclude SARS INCOME TAX(CR BALANCE)
  SHAREHOLDERS FOR DIVIDENDS

AIULIG Assets increase utilised/ liabilities increase generated

ADGLDU Assets decreased generated/ liabilities decreased utilised

→ (LOVE ARROW)

	2009	2010		
Inventories	10 000	15 000	(5 000)	
Trade & rec	30 000	10 000	20 000	(excludes SARS INCOME TAX (DR)
Trade& pay	50 000	40 000	(10 000)	
Cash generated			5 000	

2. Calculate the changes in working capital by considering the following:

Calculate the amount of taxation **paid.**

You may use the logical method or you may do the SARS: Income tax account. The **bank** amounts in this account would represent the taxation paid.

Opening balance

SARS INCOME TAX **B2**

		Bank	CPJ1	140 000			Balance	b/d	60 000
		Balance	c/d	20 000			Income tax		100 000
				160 000					**160 000**
							Balance	b/d	20 000

Closing balance **Expense**

TAXATION PAID R140 000

Calculate the amount of dividend **paid**.

You may use the logical method or you may do the Shareholders for dividend and ordinary share dividend accounts. The **bank** amounts in these accounts would represent the dividend paid.

INTERIM DIVIDEND PAID

ORDINARY SHARE DIVIDENDS N2

		Bank		36 000			Appropriation		60 000
		Shareholders for dividends		24 000					
				60 000					**60 000**

LAST YEARS DIVIDEND

SHAREHOLDERS FOR DIVIDENDS B2

		Bank		40 000			Balance	c/d	40 000
		Balance		24 000			Ordinary share dividends		24 000
				64 000					**64 000**
							Balance		24 000

DIVIDENDS PAID (36 000 +40 000) R76 000

Calculate the fixed assets purchased.

INVESTING ACTIVITIES

COST PRICE METHOD

ASSET B2

		BALANCE		210 000			ASSET DISPOSAL(CP)		50 000
		BANK		**200 000**			Balance		360 000
				410 000					**410 000**
		Balance		360 000					

(360 000+50 000 – 210 000) (200 000)

ASSET DISPOSAL N2

		ASSET		50 000			ACCUMULATED DEPRECIATION		40 000
							BANK		**10 000**
				50 000					**50 000**

CARRYING VALUE

ASSET B2

		BALANCE		500 000			ASSET DISPOSAL**(CV)**		30 000
							DEPRECIATION		100 000
		BANK		**330 000**			Balance		700 000
				830 000					**830 000**
		Balance		700 000					

ASSET DISPOSAL N2

		ASSET		30 000			**BANK**		**30 000**
				30 000					**30 000**

INVESTING ACTIVITIES

- THE INCREASE OR DECREASE OF FINANCIAL ASSETS
- FIXED DEPOSITS

FINANCING ACTIVITIES

- Calculate proceeds from the issue of shares. Remember to include the premium
- Calculate repayment of loans.
- Acquisition of loans

HEEDA LIMITED
CASH-FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2012

CASH FLOW FROM OPERATING ACTIVITIES		335 000
Cash generated from operations		902 000
Interest paid		(144 000)
Taxation paid		(216 000)
Dividends paid		(207 000)
CASH FLOW FROM INVESTING ACTIVITIES		(764 000)
Purchase of tangible/fixed assets		(836 000)
Proceeds from the sale of tangible/fixed assets		72 000
CASH FLOW FROM FINANCING ACTIVITIES		330 000
Proceeds from the issue of shares		630 000
Repayment of non-current liabilities		(300 000)
Net change in cash and cash equivalents		(99 000)
Cash and cash equivalents at the beginning of the year		654 000
Cash and cash equivalents at the end of the year		555 000