

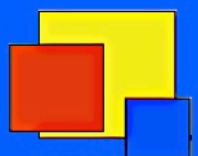
ACCOUNTING



EZ Learn Accounting

Grade 12

Written by Barbara Williamson



EZ Learn

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5. Cash flow statements

By the end of this chapter you should be able to prepare the cash flow statement of a company

5.1. Baseline assessment



1. How does cash flow differ from profitability of a business?

😊	😐	😞

2. Why is cash flow important?

--	--	--

3. How do you think you could use the Statement of Income and Statement of Financial Position to determine cash flow?

--	--	--



Cash flow statements

Businessmen may be concerned if a business is making large profits, but has no cash – they want to know where it is! Neither the Statement of Income nor the Statement of Financial Position show what sources were responsible for the funds used by a business, or how these funds were applied, i.e. where cash was obtained and what it was spent on, and so this is shown in a cash flow statement (one of the financial statements required for a company, but it may be drawn up for any business).

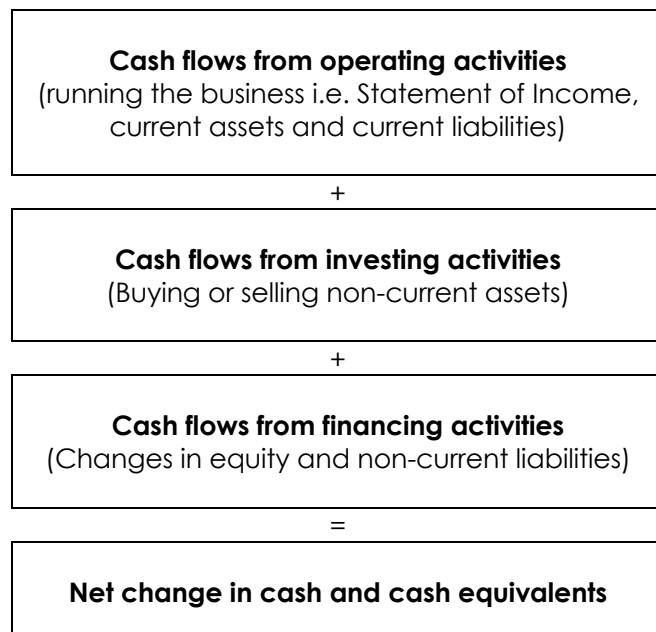
Liquidity is important in the running of any business, to ensure we are able to pay our creditors on demand. A cash flow statement can therefore be drawn up to show

1. Where money was obtained
2. On what it was spent
3. Why the cash balance has changed
4. Why cash might be short even if the net income was good
5. Where there may be a danger of not being able to pay debts as they become due.

Concepts used:

1. **Cash:** cash in the bank and on hand.
2. **Operating activities:** all transactions and other events not part of investing or financing activities.
3. **Investing activities:** activities relating to the purchase or sale of fixed assets.
4. **Financing activities:** activities resulting in changes in the amount and composition of debt and capital funding (i.e. liabilities and capital).

The cash flow statement consists of three main parts:



Use any QR reader on your device to be directed to a YouTube video on this topic



Since operating activities form the basis of the company's existence, it is important that a positive cash flow from operations is generated. Financing and investing activities are therefore disclosed separately. Although dividends and interest are usually shown as part of operating activities, they may be shown as investing or financing, as long as there is consistency from one year to the next.

5.2. Case study

(20 marks, 10 minutes)



The following information has been extracted from the reviewed group preliminary results of Hosken Consolidated Investments Limited for the year ended 31 March 20_3.

Required:

Study the information given carefully, and answer the questions.

Abridged Consolidated Cashflow Statement	
	31 March 20_3 R'000 Reviewed
Cash flows from operating activities	1 476 136
Cash flows from investing activities	(1 593 668)
Cash flows from financing activities	11 973
Decrease in cash and cash equivalents	(105 559)
Cash and cash equivalents	
At beginning of period	710 445
Foreign exchange differences	16 833
At end of period	621 719

1. Explain the purpose of drawing up a cash flow statement. (4)

2. What items would be used to calculate the following?

- 2.1. Cash flows from operating activities (2)

- 2.2. Net cash used in investing activities (2)

- 2.3. Net cash used in financing activities (2)

3. Show how the net change in cash was calculated. (5)

4. Does the company seem to have a healthy cash flow? Give TWO reasons for your answer. (5)

20

Drawing up a cash flow statement

The cash flow statement is drawn up by comparing the financial statements of two consecutive years to see the changes that have occurred. Differences (which are a result of cash flows) are shown in the cash flow statement. Outflows of cash are shown by amounts in brackets.

(Name of business)

Cash flow statement for the year ended (date)

CASH FLOWS FROM OPERATING ACTIVITIES	XXX
Cash receipts from customers	XX
Cash paid to suppliers and employees	(XX)
Cash generated by operations	XXX
Interest paid	(XX)
Dividends paid	(XX)
Normal tax paid	(XX)
CASH FLOWS FROM INVESTING ACTIVITIES	(XXX)
Fixed assets purchased	(XX)
Proceeds from sale of fixed assets	XX
CASH FLOWS FROM FINANCING ACTIVITIES	XXX
Proceeds from issue of share capital	XX
Repurchase of shares	(XX)
Proceeds from long-term borrowings	XX
Payment of capital portion of long term borrowings	(XX)
Net change in cash and cash equivalents	XXX
Cash and cash equivalents: beginning of year	XX
Cash and cash equivalents: end of year	XXX

Note:

"Cash receipts from customers" and "Cash paid to suppliers and employees" are the actual cash amounts received and paid. You do not need to know how to calculate them, but should realize that together they will add up to the cash generated from operations.





5.3. Example

Tony Bleekers, majority shareholder of Tony's Toy Shop (Pty) Ltd., is pleased to see that his business has made a healthy profit in its second year of trading. However, he does not understand why the business bank account has an unfavourable balance of R20 000 in spite of this.

Required:

1. Draw up a cash flow statement for the year ended 31 May 20_4.
2. Answer the questions that follow.

Information extracted from the financial statements for the year ended 31 May 20_4:

1. Interest expense R1 500
2. Dividends paid R20 000
3. Taxation paid R12 000
4. Cost price of new computer equipment bought R10 000
5. Trade-in value of old computer R2 000
6. Increase in share capital R55 000
7. Shares bought back during the year, R30 000
8. New loan taken out R10 000
9. Repayment of loan R7 500
10. Petty cash at 31 May 20_4 R500

Solution:

1.

Tony's Toy Shop (Pty) Ltd.

Cash flow statement for the year ended 31 May 20_4

CASH FLOWS FROM OPERATING ACTIVITIES	(30 000)
Cash receipts from customers	84 000
Cash paid to suppliers and employees	(80 500)
Cash generated by operations	3 500
Interest paid (1)	(1 500)
Dividends paid (2)	(20 000)
Normal tax paid (3)	(12 000)
CASH FLOWS FROM INVESTING ACTIVITIES	(8 000)
Fixed assets purchased (4)	(10 000)
Proceeds from the sale of fixed assets (5)	2 000
CASH FLOWS FROM FINANCING ACTIVITIES	27 500
Proceeds from issue of share capital (6)	55 000
Repurchase of shares (7)	(30 000)
Proceeds from long term borrowings (8)	10 000
Payment of capital portion of long term borrowings (9)	(7 500)
Net change in cash and cash equivalents	(10 500)
Cash and cash equivalents: 1 June 20_3	(9 000)
Cash and cash equivalents: 31 May 20_4 (-20 000 + 500(10))	(19 500)

Missing

Given in

Questions:

- 2.1. Explain why his business has such poor cash flow.

Answer:

He has bought a new computer and paid high dividends. There is probably a negative cash flow from changes in working capital.

- 2.2. Suggest one way in which he could improve his cash flow in the future.

Answer:

He should try to get debtors to pay sooner, reduce stock levels, and should not declare dividends unless cash is available.



5.4. Exercise

Collier Bock Limited
Statement of Income for the year ended
31 March 20_4

Operating profit	107 000
Interest expense	<u>(2 000)</u>
Profit before tax	105 000
Taxation	<u>(31 500)</u>
Net profit for the year	<u>73 500</u>

Additional information:

1. A new vehicle was purchased during the year at a cost of R150 000. No other non-current assets were sold or purchased.
2. Trade and other payables includes the bank overdraft of R2 000 in 20_3. The remaining cash represents the cash float.
3. All tax and dividends were paid during the year (HINT: Recreate the Appropriation account to determine dividends for the year).
4. R50 000 was used to buy back shares during the year, at the average share price.

Collier Bock Limited
Statement of Financial Position at 31 March
20_4 20_3

ASSETS		
<u>Non current assets</u>	240 000	155 000
Tangible assets	240 000	100 000
Financial assets		55 000
<u>Current assets</u>	77 500	80 200
Inventory	60 000	50 000
Trade and other receivables	15 000	30 000
Cash and cash equivalents	2 500	200
Total assets	317 500	235 200
EQUITY AND LIABILITIES		
<u>Capital and reserves</u>	290 000	200 000
Ordinary share capital	270 000	170 000
Accumulated profits	20 000	30 000
<u>Non current liabilities</u>		
Loan: Sam's Bank	20 000	30 000
<u>Current liabilities</u>		
Trade and other payables	7 500	5 200
Total equity and liabilities	317 500	235 200

Required:

Complete the cash flow statement.

Cash flow statement for the year ended 31 March 20_4

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	264 500
Cash paid to suppliers and employees	(138 200)
CASH FLOWS FROM INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	
Net change in cash and cash equivalents	
Cash and cash equivalents: 1 April 20_3	
Cash and cash equivalents: 31 March 20_4	

Notes to the cash flow statement

Cash generated by operations

Cash generated from operations can be calculated directly on the face of the cash flow statement, as was done in the previous example and exercise. However, this can also be calculated indirectly. A note is used to show how this figure is arrived at from the profit before tax.

1. Reconciliation between profit before tax and cash generated by operations

Profit before tax	XXX
Adjusted for:	
Depreciation	XXX
Interest expense / finance costs	XXX
Operating profit before changes in working capital	XXX
Changes in working capital	XXX
(Increase) decrease in inventory	XXX
(Increase) decrease in debtors	XXX
Increase (decrease) in creditors	XXX
Cash generated by operations	XXX

Brackets will be used here to show an outflow of cash, e.g. if inventory increased.

This figure should be the same as that on the face of the cash flow statement.

Note:

1. An adjustment is made for depreciation as it is not a cash expense (no cash was paid, it simply represents a drop in value of certain assets). As such it is not used in showing cash flows for the business.
2. The adjustment for interest is made so that interest can be shown as a separate cash payment together with taxation and dividends, as it is not an operating expense of the business.

Cash and cash equivalents

A note for cash and cash equivalents is used to show the changes of individual cash items. The net change is the difference between the two years, and is the amount that appears on the face of the cash flow statement.

2. Cash and cash equivalents

	Net change	Year 2	Year 1
Bank	XXX	XXX	XXX
Cash float	XXX	XXX	XXX
Petty cash	XXX	XXX	XXX
	XXX	XXX	XXX





5.5. Example

(Continuation of previous example)

Tony Bleekers, majority shareholder of Tony's Toy Shop (Pty) Ltd., is pleased to see that his business has made a healthy profit in its second year of trading. However, he does not understand why the business bank account has an unfavourable balance of R20 000 in spite of this.

Required:

Draw up the following notes to the cash flow statement:

1. Reconciliation between profit before tax and cash generated by operations
2. Cash and cash equivalents

Information extracted from the financial statements of Tony's Toy Shop for the year ended 31 May 20_4:

1. Profit before taxation R45 000
2. Operating expenses R33 500 (includes depreciation of R9 000)
3. Interest expense R1 500
4. Increase in stock R12 000
5. Increase in debtors R45 000
6. Increase in creditors R5 000
7. Petty cash at 1 April 20_3 R300
8. Petty cash at 31 May 20_4 R500
9. Net change in cash and cash equivalents as per cash flow statement R10 500 (outflow)

Solution:

Tony's Toy Shop

Notes to the cash flow statement for the year ended 31 May 20_4

1. Reconciliation between profit before taxation and cash generated from operations

Profit before taxation (1)	45 000
Adjustments in respect of:	
Depreciation (2)	9 000
Interest expense (3)	1 500
Operating profit before changes in working capital	55 500
Changes in working capital	(52 000)
Increase in inventory (4)	(12 000)
Increase in debtors (5)	(45 000)
Increase in creditors (6)	5 000
Cash generated from operations	3 500

Compare this to the cash flow statement in example 4.3.

Given

2. Cash and cash equivalents

	Net change	20_4	20_3
Bank	(10 700)	(20 000)	(9 300)
Petty cash (7) (8)	200	500	300
	(9) (10 500)	(19 500)	(9 000)

Fill in the given figures, and then calculate the missing amounts.



5.6. Exercise

(Continuation of previous exercise)

Collier Bock Limited Statement of Income for the year ended 31 March 20_4

Sales	250 000
Cost of sales	(100 000)
Gross profit	150 000
Operating expenses	(43 000)
Stationery	5 500
Wages	2 500
Depreciation	10 000
Rent expense	25 000
Operating profit	107 000
Interest expense	(2 000)
Profit before tax	105 000
Taxation	(31 500)
Net profit for the year	73 500

Collier Bock Limited Statement of Financial Position at 31 March

	20_4	20_3
ASSETS		
<u>Non current assets</u>	240 000	155 000
Tangible assets	240 000	100 000
Financial assets		55 000
<u>Current assets</u>	77 500	80 200
Inventory	60 000	50 000
Trade and other receivables	15 000	30 000
Cash and cash equivalents	2 500	200
Total assets	317 500	235 200
EQUITY AND LIABILITIES		
<u>Capital and reserves</u>	290 000	200 000
Ordinary share capital	270 000	170 000
Accumulated profits	20 000	30 000
<u>Non current liabilities</u>		
Loan: Sam's Bank	20 000	30 000
<u>Current liabilities</u>		
Trade and other payables	7 500	5 200
Total equity and liabilities	317 500	235 200

Additional information:

Trade and other payables includes the bank overdraft of R2 000 in 20_3. The remaining cash represents the cash float.

Required:

Complete the following notes to the cash flow statement:

1. Reconciliation between profit before tax and cash generated by operations

Profit before taxation	
Adjustment in respect of:	
Operating profit before changes in working capital:	
Changes in working capital	
Increase / decrease in inventory*	
Increase / decrease in debtors*	
Increase / decrease in creditors*	
Cash generated from operations	

* Delete that which is not applicable

2. Cash and cash equivalents

	Net change	20_4	20_3
Bank			
Cash float			

Calculating interest, tax and dividends paid

The interest expense, tax and dividends for the year are usually not the actual amounts paid, as there are usually balances outstanding at the end of each year. The actual amount paid therefore needs to be calculated. The easiest way to do this is to recreate T-accounts to determine the missing bank figures. Alternatively, logical calculations can be used if you prefer.

Interest paid

If accrued expenses includes interest owing at the beginning and end of the year, these need to be compared to the interest expense on the Statement of Income to determine the actual amount paid.

Using a T-account:

Interest expense			
Bank	XXX	Accrued	XXX
	(SCF)	expenses	(SFP)
		(beg of yr)	
Accrued	XXX	Profit & loss	XXX
expenses	(SFP)		(SI)
(end of yr)			

Logical calculation:

Amount owed at beginning of year	(XXX)
Amount in Statement of Income	(XXX)
Amount owed at end of year	XXX
Cash amount paid	<u>(XXX)</u>

SCF – Statement of Cash Flows figure
SFP – Statement of Financial Position figure
SI – Statement of Income figure

Taxation paid

The amounts owing to or owed by SARS at the beginning and end of the year must be taken into account. If you are using the logical calculation, be sure to remember that if SARS has a debit balance, the beginning figure would be an inflow, and the end an outflow. Because this may get rather confusing, I prefer to use the T-account.

Using a T-account:

SARS (Income tax)			
Bank (SCF)	XXX	Bal b/d(SFP)	XXX
		Income tax	XXX
		(SI)	
		Bal b/d(SFP)	XXX

Logical calculation:

Amount owed at beginning of year	(XXX)
Amount in Statement of Income	(XXX)
Amount owed at end of year	XXX
Cash amount paid	<u>(XXX)</u>

Simply show a debit balance on the debit side, if this is the case!

Dividends paid

Because the final dividend declared is only paid the following year, you will need to calculate the actual amount paid during the year. If enough information is given, you can simply add last year's final dividend to this year's interim dividend. If you are not able to do this, calculate dividend paid in the same way as interest and tax. To simplify your calculation if you are using a T-account, record everything into the Shareholders for dividends account to avoid having to draw up an additional account for Ordinary Share Dividends to determine the amount of interim dividends paid.

Using a T-account:				Logical calculation:	
Shareholders for dividends				Amount owed at beginning of year	(XXX)
Bank (SCF)	XXX	Bal b/d(SFP)	XXX	Dividends declared during the year	(XXX)
		Dividends	XXX	Amount owed at end of year	XXX
		(interim & final		Cash amount paid	<u>(XXX)</u>
		for current			
		year) o			
		Bal b/d(SFP)○	XXX		

Combine Shareholders for dividends and Dividends accounts in one T-account to determine overall effect on cash

The effect on the change in debtors and creditors

Because you will use interest, tax and dividends owing at the beginning and end of the year in your calculations of the interest, tax and dividends paid, you need to remember to exclude them in your calculation of the changes in debtors and creditors. You will usually be given the notes for receivables and payables – simply recalculate the totals without the following figures:

1. Accrued expenses (interest)
2. SARS (Income tax)
3. Shareholders for dividends

Compare your new totals to determine the changes in debtors and creditors.

Other useful T-accounts

Tangible assets at carrying value

T-accounts can be very useful to determine the cash effect of other changes as well, especially when trying to calculate non-current assets bought or sold. Because you will not always be given information regarding each asset item, draw up one rough T-account for all tangible assets at their carrying value, i.e. including cost and accumulated depreciation.

Retained earnings

Recreating the Retained Earnings account using the balances at the beginning and end of the year, as well as any other information given such as profit before tax, tax and dividends will allow you to work out one of these figures if necessary.





5.7. Example

Required:

Use the given information to calculate the interest paid, taxation paid, dividends paid, change in debtors, and change in creditors

Information:

Statement of Income for the year ended 28 February	20_4	20_3
Operating profit	150 000	120 000
Interest expense	(3 000)	(2 500)
Profit before tax	147 000	117 500
Taxation	(54 100)	(41 500)
Net profit for the year	92 900	76 000

Notes to the financial statements for the year ended 28 February 20_4

1. <u>Trade and other receivables</u>	20_4	20_3
Trade debtors	28 500	23 750
Accrued income	1 000	5 000
Prepaid expenses	500	2 300
South African Revenue Services (Income tax)		1 500
	<u>30 000</u>	<u>32 550</u>
2. <u>Accumulated profits</u>		
Balance at 1 March	40 000	14 000
Net profit for the year	92 900	76 000
Ordinary share dividends	(80 000)	(50 000)
Paid	30 000	20 000
Recommended	50 000	30 000
Balance at 28 February	<u>52 900</u>	<u>40 000</u>
3. <u>Trade and other payables</u>		
Trade creditors	15 000	8 000
Income received in advance	3 000	4 000
Accrued expenses (interest on loan)	250	200
Current portion of loan		5 000
Creditors for salaries	5 300	4 150
Pension fund	700	650
Medical aid fund	1 500	1 200
South African Revenue Services	15 100	2 000
PAYE	2 500	2 000
Income tax	12 600	
Shareholders for dividends	50 000	30 000
	<u>90 850</u>	<u>55 200</u>

5. Cash flow statements

Solution:

Note: When calculating the interest, tax and dividends paid, use either the T-account OR the logical calculation method – don't waste your time doing both!

1. Interest paid:

Interest expense			
Bank	2 950	Accrued expenses	200
Accrued expenses	250	Profit & loss	3 000
		Amount owed at beginning of year	(200)
		Amount in Statement of Income	(3 000)
		Amount owed at end of year	250
		Cash amount paid	<u>(2 950)</u>

2. Taxation paid:

SARS (Income tax)			
Bal b/d	1 500	Income tax	54 100
Bank	40 000	Bal b/d	12 600
		Amount owed at beg yr	1 500
		Amount in SI	(54 100)
		Amount owed at end yr	12 600
		Cash amount paid	<u>(40 000)</u>

3. Dividends paid:

Shareholders for dividends			
Bank	60 000	Bal b/d	30 000
		Dividends	80 000
		Bal b/d	50 000
		Amount owed at beg yr	(30 000)
		Dividends during the year	(80 000)
		Amount owed at end yr	50 000
		Cash amount paid	<u>(60 000)</u>

OR

Final dividend 20_3 + interim dividend 20_4
= 30 000 + 30 000 = **60 000**

4. Change in debtors:

Trade and other receivables

Trade debtors	28 500	23 750
Accrued income	1 000	5 000
Prepaid expenses	500	2 300
South African Revenue Services (Income tax)		1 500
New totals	30 000	31 050

Debtors therefore decrease by R1 050 – an inflow of cash.

5. Change in creditors:

Trade and other payables

Trade creditors	15 000	8 000
Income received in advance	3 000	4 000
Accrued expenses (interest on loan)	250	200
Current portion of loan		5 000
Creditors for salaries	5 300	4 150
Pension fund	700	650
Medical aid fund	1 500	1 200
South African Revenue Services	15 100	2 000
PAYE	2 500	2 000
Income tax	12 600	
Shareholders for dividends	50 000	30 000
New totals	28 000	25 000

You can do this on your question paper.

Creditors therefore increase by R3 000, an inflow of cash.



5.9. Exercise

Use the given information to fill in the missing amounts where indicated by (*).

Extract from the **Statement of Income for the year ended 31 May 20_4**

Operating profit	800 000
Interest expense	(10 000)
Net profit before tax	790 000
Taxation	(287 000)
Net profit for the year	503 000

Extract from the **Statement of Financial Position at 31 May 20_4**

	20_4	20_3
ASSETS		
Tangible assets	216 000	250 000
Cash and cash equivalents	84 000	2 000
EQUITY AND LIABILITIES		
Accumulated profits	453 000	350 000
Bank overdraft		14 000

Extract from the **Notes to the financial statements for the year ended 31 May 20_4**

	20_4	20_3
<u>Trade and other receivables</u> included		
South African Revenue Services (income tax))	22 000	
<u>Trade and other payables</u> included		
Accrued expenses (interest on loan)	1 000	3 000
South African Revenue Services		
Income tax		15 000
Shareholders for dividends	250 000	250 000

Cash flow statement for the year ended 31 May 20_4

CASH FLOWS FROM OPERATING ACTIVITIES	*
	*
Cash paid to suppliers and employees	(430 000)
	*
Interest paid	*
Dividends paid	*
Taxation paid	*
CASH FLOWS FROM INVESTING ACTIVITIES	(20 000)
Proceeds from sale of non-current assets	30 000
Purchase of new non-current assets	(50 000)
CASH FLOWS FROM FINANCING ACTIVITIES	3 000
Proceeds from the issue of shares	100 000
Payment of capital portion of long term borrowings	(97 000)
	*
Cash and cash equivalents: 1 June 20_3	*
Cash and cash equivalents: 31 May 20_4	*
<u>Reconciliation between profit before tax and cash generated by operations</u>	
Profit before tax	*
Adjusted for:	
	*
	*
	*
Changes in working capital	(5 000)
Increase in inventory	(35 000)
Decrease in debtors	22 000
Increase in creditors	8 000
	*



5.10. Crossword

Required:

Complete the crossword by filling in the correct amounts that would appear in the cash flow statement below.

Shamir Ltd.

Cash flow statement for the year ended 28 February 20_5

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers

Cash paid to suppliers and employees

Cash generated by operations

Interest paid

Taxation paid

Dividends paid

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of non-current assets

Purchase of new non-current assets

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from shares issued

Proceeds from long term borrowings

Payment of capital portion of long term borrowings

NET CHANGE IN CASH AND CASH EQUIVALENTS

Cash balance at beginning of year

Cash balance at end of year

6

1

(85 250)

2

(3)

(4)

(5)

(9)

7

(8)

13

10

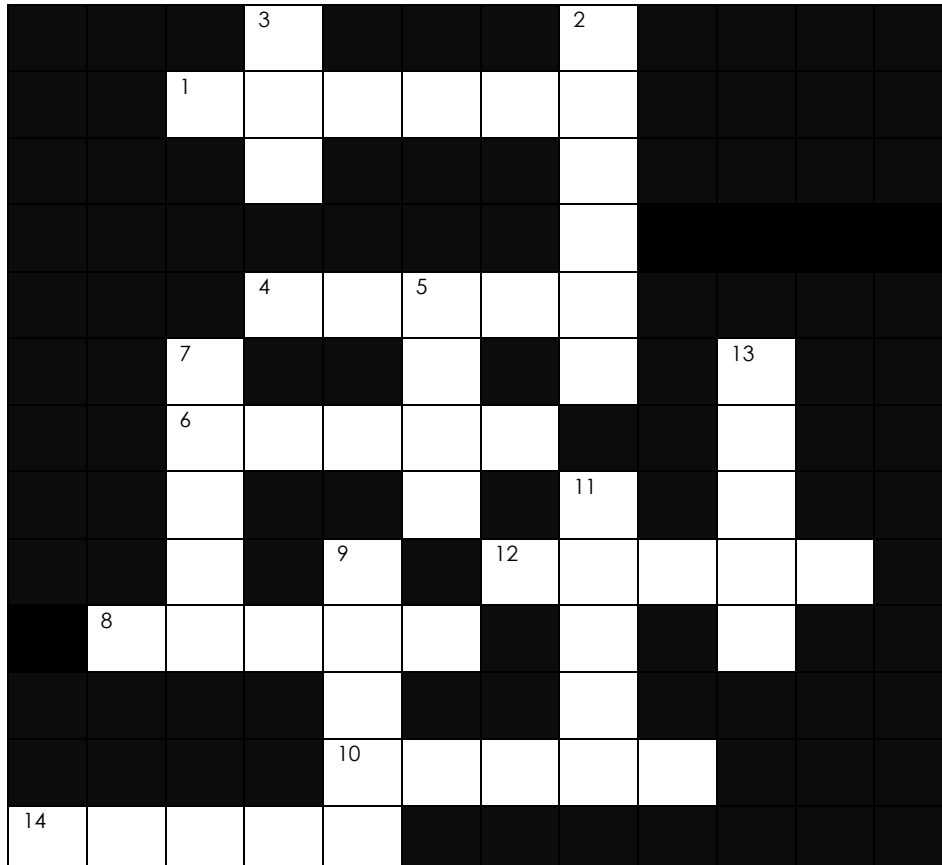
11

(12)

14

24 615

92 350



Additional clues:

1. Calculate.
2. Profit before tax is R100 000. Depreciation for the year amounted to R20 150. Interest expense for the year amounted to R395. Working capital changes resulted in an outflow of R15 295.
3. Interest was fully paid during the year.
4. Income tax for the year was calculated as R30 445. The Statement of Financial Position included an amount of R7 400 owed by SARS on 28 February 20_4, and R4 350 owed to SARS on 28 February 20_5.
5. An interim dividend of R6 430 was paid on 31 August 20_4, and a final dividend of R12 530 was declared on 28 February 20_5. No dividends were distributed for the previous financial year.
6. Calculate.
7. Old equipment with a book value of R15 475 was sold on 1 December 20_4 at a profit of R2 500.
8. Tangible assets had a carrying value in the Statement of Financial Position of R150 655 on 1 March 20_4, and R200 300 on 28 February 20_5.
9. Calculate.
10. The company has an authorized share capital of 100 000 shares, of which 70 000 were in issue at the beginning of the financial year. On 1 January 20_5 the remaining shares were issued at R3,20 per share.
11. A new loan of R15 000 was taken out on 28 February 20_5 at an interest rate of 15%p.a.
12. On 1 March 20_4 R55 700 was owed to Red Bank. This was repaid on 31 March 20_4 with interest for the month at 17%p.a.
13. Calculate.
14. Calculate.



5.11. Exercise

Required:

1. Draw up the cash flow statement and notes for the year ended 30 April 20_4.
2. How was the money raised from the issue of new shares used?

Information taken from the Statement of Financial Position at 30 April 20_4

	20_4 R000's	20_3 R000's
ASSETS		
<u>Non current assets</u>		
Tangible assets	480	400
<u>Current assets</u>	142	79
Inventory	85	32
Trade and other receivables	52	46
Cash and cash equivalents	5	1
Total assets	622	479
EQUITY AND LIABILITIES		
<u>Capital and reserves</u>	467	315
Equity capital	460	310
Accumulated profits	7	5
<u>Non current liabilities</u>		
Loan: Morningside Bank (15%p.a.)	80	60
<u>Current liabilities</u>	75	104
Trade and other payables	75	80
Bank overdraft	0	24
Total equity and liabilities	622	479

Additional information:

1. Income tax for the year was calculated as R120 000.
2. An interim dividend of R1 per share was paid on 30 September 20_3, when there were 150 000 shares in issue.
3. The new shares were issued on 30 November 20_3.
4. Trade and other receivables included R14 000 owed by SARS on 30 April 20_4.
5. Trade and other payables included the following:

	20_4	20_3
Trade creditors	R42 000	R36 000
South African Revenue Services (Income tax)	-	R22 000
Shareholders for Dividends	R30 000	R20 000
Expenses Accrued (Interest on loan)	R3 000	R2 000

6. The additional loan was taken out on 1 January 20_4.
7. Depreciation for the year was calculated at R45 000.
8. The new vehicle was purchased when an old vehicle was traded in at book value, R30 000, on 1 May 20_3.
9. The petty cash imprest amount was increased from R1 000 to R2 000 on 1 January 20_4.

5. Cash flow statements

Cash flow statement for the year ended 30 April 20_4

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		808 000
Cash generated by operations	1	
CASH FLOWS FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in cash and cash equivalents	2	
	2	

Notes to the cash flow statement for the year ended 30 April 20_4

Reconciliation between profit before tax and cash generated by operations

Profit before tax	
Adjustments in respect of:	
Operating profit before changes in working capital	
Changes in working capital	
Cash generated by operations	

Cash and cash equivalents

	Net change	20_4	20_3

2.



5.12. Exercise

The following information relates to Hurry Ltd.

Extract from the general ledger (amounts in R000's):

Vehicles									
20_3 Sep	1	Balance	B/d	500	20_4 June	1	Asset disposal	GJ	150
20_4 June	1	Creditors control	CJ	200	Aug	31	Balance	C/d	550
				700					700
20_4 Sep	1	Balance	B/d	550					

Accumulated depreciation on vehicles									
20_4 June	1	Asset disposal	GJ	48	20_3 Sep	1	Balance	B/d	100
Aug	31	Balance	C/d		20_4 June	1	Depreciation	GJ	18
					Aug	31	Depreciation	GJ	
					Sep	1	Balance	B/d	

Extracts from the financial statements of Hurry Ltd:

Statement of Income for the year ended 31 August 20_4

	R000's
Current income	1 340
Other operating income (discount received)	20
Operating expenses	(540)
Operating profit	820
Interest expense	(15)
Profit before tax	805
Taxation	(240)
Net profit for the year	565

Notes to the financial statements for the year ended 31 August

Trade and other payables

	20_4	20_3
Trade creditors	25	39
Deferred income	5	
South African Revenue Service (Income tax)	60	40
Shareholders for dividends	300	150
	388	229

Additional information:

- Depreciation is calculated at 20% p.a. on the carrying value.
- The vehicle was sold at a loss of R2 000.
- An amount of R90 000 was owed by debtors on 1 September 20_3.
- Cash at 31 August 20_4 totalled R502 000.
- The current ratio on 31 August 20_4 was 1,5 : 1.
- The amounts owing to SARS and shareholders at the beginning of the financial year were paid on 20 October 20_3.
- Provisional tax was paid in two equal amounts, on 31 January and 25 August 20_4.
- An interim dividend of R75 000 was declared on 15 February 20_4, and paid on 18 March 20_4.
- There was no change in equity or non-current liabilities during the year.
- A final dividend was declared on 31 August 20_4.

5. Cash flow statements

Required:

1. Calculate the following:
 - 1.1. Depreciation for the year

- 1.2. The change in debtors

2. Complete the following general ledger accounts for the year ended 31 August 20_4 (show amounts in R000's):

- 2.1. South African Revenue Service (Income tax)

- 2.2. Shareholders for dividends

3. Draw up the cash flow statement for the year ended 31 August 20_4.

Hurry Ltd.

Cash flow statement for the year ended 31 August 20_4

	R 000's
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid to suppliers and employees	(445)
Cash generated from operations	
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in cash and cash equivalents	
Cash and cash equivalents (1 September 20_3)	
Cash and cash equivalents (31 August 20_4)	



5.13. Check yourself

Tick the block that represents how you feel when faced with the following questions.
Can you ...

	😊	😐	☹️
Prepare the cash flow statement of a company?			
Prepare the notes to the cash flow statement of a company?			

If you have ticked mostly happy faces, great! Move on to the summative assessment. If you are not sure, or have ticked mostly sad faces, it might be wise to ask your teacher for some extra help before moving on.

5.14. Summative assessment

(60 marks, 40 minutes)



Chenjack Ltd. is run by two directors, Eddie Chen and James Jackson, who started the business a few years ago. After having the financial statements drawn up by their accountant, they were concerned to see that the business has made a disappointing loss. They thought the business was doing well, as they have so much cash on hand. They have hired you, as a financial consultant, to explain their situation.

Statement of Income for the year ended 28 February 20_3

Sales	1 400 000
Cost of sales	<u>1 000 000</u>
Gross profit	400 000
Other operating income	50 000
Operating expenses	<u>(420 000)</u>
Administrative expenses	254 000
Marketing expenses	130 000
Depreciation	<u>36 000</u>
Operating profit	30 000
Interest expense	1 <u>(35 000)</u>
Loss before taxation	(5 000)
Taxation for the year	<u>(6 000)</u>
Net loss for the year	<u>(11 000)</u>
Earnings per share	(2c)

Statement of Financial Position at 28 February 20_3 20_3 20_2

ASSETS

Non-current assets

Tangible assets 2 690 500 240 000

Current assets

Inventory 3 120 000 140 000

Trade and other receivables 4 125 000 118 000

Cash and cash equivalents 5 83 000 1 500

Total assets 1 018 500 499 500

EQUITY AND LIABILITIES

Capital and reserves

Equity capital 6 775 000 250 000

Accumulated profits 7 48 500 137 500

Non-current liabilities

Loan: Just A Bank 100 000

Current liabilities

Trade and other payables 8 95 000 92 000

Bank overdraft 20 000

Total equity and liabilities 1 018 500 499 500

Additional information:

- The company has an authorized share capital of 500 000 ordinary shares. 90 000 shares were in issue during the financial year ended 28 February 20_2, and new shares were issued on 1 September 20_2 to result in 240 000 share in issue.
- Trade and other receivables includes an amount of R5 000 owed by SARS on 28 February 20_3.
- Trade and other payables includes an amount of R9 000 owed to SARS, and an accrued expense of R3 000 owing for interest, on 28 February 20_2.
- Dividends of R78 000 were declared and paid during the year.
- Equipment was sold at book value during the year.
- A new office was built at a cost of R500 500.

5. Cash flow statements

Required:

1. Complete Equity Capital note.

(9)

	20_3	20_2
Authorised		
Issued		

2. Cash flow statement for the year ended 28 February 20_3

(48)

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		1 448 000
Cash paid to suppliers and employees		(1 349 000)
	1	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of new non-current assets		(500 500)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in cash and cash equivalents	2	

1. Reconciliation between profit before tax and cash generated by operations

Loss before taxation	
Adjusted for:	
Depreciation	
Interest expense	
Operating profit before changes in working capital	
Changes in working capital	
In inventory	
In debtors	
In creditors	
Cash generated by operations	

2. Cash and cash equivalents

	20_3	20_2	Net change
Bank	80 000		
Cash float	1 000	500	
Petty cash	2 000	1 000	
	83 000		

3. Identify a reason for the good cash flow in spite of the loss situation.

(2)

4. Explain why tax might have been shown in the Statement of Income, when the business made a loss.

(2)