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ACCOUNTING

CASH FLOW STATEMENT

GRADE 12

basic education
Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

Read to Lead
A Reading Nation is a Leading Nation

2030 NDP

Foreword

In order to improve learning outcomes the Department of Basic Education conducted research to determine the specific areas that learners struggle with in Grade 12 examinations. The research included a trend analysis by subject experts of learner performance over a period of five years as well as learner examination scripts in order to diagnose deficiencies or misconceptions in particular content areas. In addition, expert teachers were interviewed to determine the best practicesto ensure mastery of thetopic by learners and improve outcomes in terms of quality and quantity.

The results of the research formed the foundation and guiding principles for the development of the booklets. In each identified subject, key content areas were identified for the development of material that will significantly improve learner's conceptual understanding whilst leading to improved performance in the subject.
The booklets are developed as part of a series of booklets, with each bookletfocussing onlyon one specific challenging topic. The selected content is explained in detail and include relevant concepts from Grades 10 - 12 to ensure conceptual understanding.

The main purpose of these booklets is to assist learners to master the content starting from a basic conceptual level of understanding to the more advanced level. The content in each booklets is presented in an easy to understand manner including the use of mind maps, summaries and exercises to support understanding and conceptual progression. These booklets should ideally be used as part of a focussed revision or enrichment program by learners after the topics have been taught in class. The booklets encourage learners to take ownership of their own learning and focus on developing and mastery critical content and skills such as reading and higher order thinking skills.

Teachers are also encouraged to infuse the content into existing lesson preparation to ensure in-depth curriculum coverage of a particular topic. Due to the nature of the booklets covering only one topic, teachers are encouraged to ensure learners access to the booklets in either print or digital form if a particular topic is taught.

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1. How to use this study guide

The main intention of this study guide is to address challenges with specific areas of subject content that was poorly answered in past NSC papers. This is informed by the detailed analysis done on each question and the findings that were provided in the Diagnostic Report.

The material presented in this booklet focuses on the progression and content overlap across the FET phase, as illustrated in the table below.

Field	Grade 12	Grade 10 & 11
Financial	**Companies** • Concepts and bookkeeping • Financial Statements • Cash Flow, Ratios (analysis and interpretation) **Reconciliations analysis** **Bank, Debtors and Creditors** **VAT**	**Bookkeeping (sole trader)** • Adjustments • Financial Statements • Ratios/ Interpretation **Reconciliations *prepare*** **VAT concepts and calculations**
Managerial	**Manufacturing concerns** • Production Cost Statement • Unit cost calculations and break-even analysis **Budgeting (analysis)** • Projected Income Statement • Cash Budget	**Manufacturing** • Concepts and **ledger accounts** • Break-even analysis **Budgeting (prepare)** • Concepts and preparation • Basic calculations
Managing Resources	• **Stock valuation** FIFO, weighted average and specific identification • **Fixed asset management (analysis)** • **Auditing, internal controls and ethics**	• **Stock (clubs)** Perpetual and periodic • **Fixed assets (prepare)** Depreciation, disposal • **Auditing, internal controls and ethics**

It is important to first address prior knowledge (concepts, calculations), before moving to the more challenging matters of analysing, interpreting and commenting. The next logical step is to tackle examination type questions with the knowledge that all questions will cater for the different cognitive levels.

This study guide provides:

- Notes on simple definitions, explanations, formulae and short-cuts (handy hints).
- Focus-activities to test specific skills.
- Application activities in the form of examination-type questions.
- Adapted questions from past examination papers.

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Plan of action:

- Master the basic skills by using this manual, together with all other resources, if more practice is needed.
- Test your knowledge by attempting to do some examination questions.
- Make a note of your shortcomings and go back to the drawing board.

2. Study and Examination Tips

Know the paper: General structure and layout

- One 3-hour paper for 300 marks;
- The paper consists of 6 compulsory questions; the marks per question range from 30 to 80 marks. Each question will comprise a number of sub-questions that are set at different cognitive levels.
- The content covered must conform to the requirements of CAPS, as follows:

Financial Accounting	50% - 60%	150 – 180 marks
Managerial Accounting	20% - 25%	60 – 75 marks
Managing Resources	20% - 25%	60 – 75 marks

The trend in past papers was as follows:

- Question 1, 2 and 6 are generally shorter questions (30 – 45 marks).
- Question 3 and 4 are generally longer questions, comprising Financial Statements and the Cash Flow Statement.
- The question paper comes with a specially prepared ANSWER BOOK, which means you can answer the questions in any order.

Strategy:

- ✓ **Cash Flow Statement** is part of Financial Accounting. Together with Income Statement, Balance sheet and Notes to the Financial Statement, it must constitute 50% – 60% of the paper.
- ✓ Past trends show that it is normally Question 4 or 5 and is 60 – 75 marks, together with analysis and interpretation.
- ✓ Examiners will sometimes ask you to complete the Cash Flow Statement, calculate some figures (like Tax Paid) and prepare some parts of the Cash Flow Statement. The past trend shows that it is seldom that you will be asked to do a full Cash Flow Statement.
  (Detailed explanations are provided in Section 5 of this document).
- ✓ The Cash Flow Statement requires good knowledge and understanding of the principles of Inflows and Outflows, i.e. how these affect the cash movement in the company.
- ✓ These skills are developed in Grade 10, where Cash Receipts Journal (Inflow) and Cash Payments Journal (Outflow) are introduced
- ✓ Knowledge of the company as a form of ownership is important to understand the changes from other forms.

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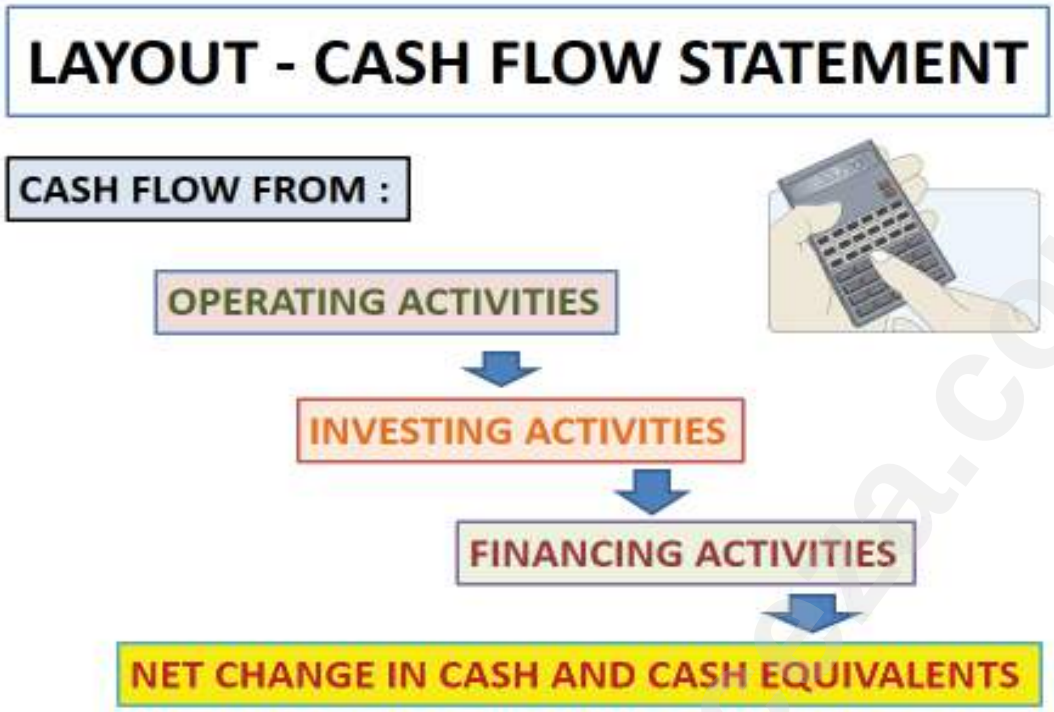
3. Overview of the Topic



4. What is a Cash Flow Statement?

A Cash Flow Statement (CFS) is one of the three key financial statements that reports the cash generated and spent during a specific period of time. The CFS acts as a bridge between the Income Statement and Balance Sheet, by showing how money moved in and out of the business.

The basic format of the CFS is provide below and please note that an outflow of cash will be shown in brackets to indicate a negative effect on cash:

CASH FLOW STATEMENT FOR THE YEAR ENDING ……		***Special notes:***
Cash effect of operating activities	XX	←Should be positive at all times If the company is successful.
Cash effects of investing activities	XX	← Depends on decisions made by the directors.
Cash effects of financing activities	XX	← Depends on decisions made by the directors.
Net change in cash and cash equivalents	XX	← Depends on the above points.
Cash and cash equivalents at the beginning of the year	XX	
Cash and cash equivalents at the end of year	XX	←A positive total will improve the liquidity of the company.

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4.1 Cash effect from Operating Activities

Information:	
Extract from the Income Statement for the year ended 28 February 2018	
Net profit before tax	300 000
Income tax	135 000
Interest on loan	92 000
Depreciation	120 000

Extract from the Balance Sheet on 28 February 2018		
	2018	**2017**
Trading stock	600 000	520 000
Trade and other receivables	230 000	286 000
Trade and other payables	300 000	272 000
SARS (income tax)	12 000	16 000
Shareholders for dividends	60 000	45 000

Operating activities are the main income-earning activities of a company. They are directly related to the main objective of a company and must be considered in a broad sense. The cash generated by operating activities is perhaps the most significant indicator of a company's success, because this relates to the main purpose of establishing the company. ***Examples of operating activities are:*** buying and selling stock; paying creditors; receiving payment from debtors; paying all the expenses, e.g. wages, salaries, telephone, motor vehicle expenses; paying SARS thetax due; paying shareholders a dividend.
The items in the CFS are not cash flows, but "reasons why cash flow is different from profit."

Depreciation expense is a non-cash item that reduces profit, but does not impact cash flow. Hence, it is added back.

If the starting point profit is above interest and tax in the income statement, then interest and tax cash flows will need to be deducted if they are to be treated as operating cash flows.

CASH FLOW STATEMENT FOR THE YEAR ENDED		
Cash flow from operating activities		*?*
Cash generated from operations	*Note 1*	*?*
Interest paid		*(?)*
Dividends paid		*(?)*
Taxation paid		*(?)*
Cash flow from investing activities		XXX
Cash flow from financing activities		XXX
Net change in cash and cash equivalents		XXX

Note 1: Cash generated from operations		
Net profit for the year	xxx	←Start with this figure from IS.
+ Depreciation	xxx	←Add back non-cash item.
+ Interest expense	xxx	←Add back non-operating expense.
Sub-total	xxx	
Net change in working capital	xxx	
(Increase) / Decrease in inventory	xxx	←These amounts can be with or without brackets, depending on the effect on the cash of the business, i.e. whether there was an inflow or outflow of cash.
(Increase) / Decrease in receivables	xxx	
Increase / (Decrease) in payables	xxx	
Cash generated from operations	xxx	←This figure will be used in the CFS.

Example:

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Information:	
Extract from the Income Statement for the year ended 28 February 2018	
Net profit before tax	300 000
Income tax	135 000
Interest on loan	92 000
Depreciation	120 000

Extract from the Balance Sheet on 28 February 2018		
	2018	**2017**
Trading stock	600 000	520 000
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Trade and other payables	300 000	272 000
SARS (income tax)	12 000	16 000
Shareholders for dividends	60 000	45 000

Total dividends for the year amounts to R100 000, as per the note to Retained Income.

Solution

Note 1: Cash generated from operations	
Net Profit *before* tax	300 000
Add: Depreciation	120 000
Add: Interest expense	92 000
Sub-total	512 000
Net changes in working capital	**(4 000)**
Change in inventory (600 000 – 520 000) - outflow	(80 000)
Change in receivables (286 000 – 230 000) - inflow	56 000
Change in payables (300 000 – 272 000) - inflow	28 000
Cash generated from operations	**508 000**

We can use the following table to calculate dividends paid and tax paid:

	Taxation
Amount in financial statements	135 000
+ Amount owing at beginning of year	16 000
- Amount owing at end of year	(12 000)
= Amount paid	***139 000***

	Dividends
Amount in financial statements (Total dividends for the year)	100 000
+ Amount owing at beginning of year	45 000
- Amount owing at end of year	(60 000)
= Amount paid	***85 000***

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CASH FLOW STATEMENT FOR THE YEAR ENDING ……		
Cash flow from operating activities		225 000
Cash generated from operations	Note 1	508 000
Interest paid		(92 000)
Dividends paid (100 000 + 45 000 – 60 000)		(85 000)
Taxation paid (135 000 + 16 000 – 12 000)		(139 000)

Let us practice

The information relate to Dean Ltd for the year ended 28 February 2018.

REQUIRED:

- Complete the note for "Cash generated from operations".
- Complete the section on "Cash flow from operating activities".

INFORMATION:

A. Extract from the Income Statement for the year ended February 2018:

Interest expense	R12 500
Depreciation	R29 000
Income Tax (30% of Net Profit before tax)	R87 000

B. Extract from the Balance Sheet:

	2018	2017
Inventory		
Trading stock	R200 000	R230 000
Consumable stores on hand	R3 000	R5 000
	R203 000	R235 000
Trade and other receivables		
Trade debtors	R41 000	R25 000
Prepaid expenses	R1 500	R1 500
	R42 500	R26 500
Trade and other payables		
Trade creditors	R35 000	R46 500
Shareholder dividends	R110 000	R54 000
SARS (income tax)	R8 500	R5 000
Accrued expenses	R4 000	R5 500
Income received in advance	R3 500	R7 500
	R161 000	R118 500

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C. The Retained Income note showed total ordinary share dividends of R180 000.

Note 1: Cash generated from operations	
Net Profit *before* tax	
Add: Depreciation	
Add: Interest expense	
Sub-total	
Net changes in working capital	
Change in inventory	
Change in receivables	
Change in payables	
Cash generated from operations	

CASH FLOW STATEMENT FOR THE YEAR ENDING		
Cash flow from operating activities		
Cash generated from operations	Note 1	
Interest paid		
Dividends paid		
Taxation paid		

Solution

Note 1: Cash generated from operations	
Net Profit *before* tax	290 000
Add: Depreciation	29 000
Add: Interest expense	12 500
Sub-total	331500
Net changes in working capital	**(1 000)**
Change in inventory (235 000 – 203 000) - inflow	32 000
Change in receivables (42 500 – 26 500) - outflow	(16 000)
Change in payables (59 500 – 42500) - outflow	(17 000)
Cash generated from operations	**330500**

CASH FLOW STATEMENT FOR THE YEAR ENDING		
Cash flow from operating activities		110 500
Cash generated from operations	Note 1	330 500
Interest paid		(12 500)
Dividends paid (54 000 + 70 000)		(124 000)
Taxation paid (87 000 + 5 000 – 8500)		(83 500)

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4.2 Cash Flow from Investing Activities

Investing activity involves the establishment of the infrastructure of a company in order for it to be in a position to earn income. ***Examples of investing activities include:*** investing in land and buildings (e.g. shop premises, which results in earning income because ofhaving a place for customers to buy goods or services); fixed deposit (generates income through interest).

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash flow from operating activities	XXX
Cash flow from investing activities	***?***
Purchase of fixed assets	*?*
Proceeds from sale of assets	*?*
Increase / Decrease in investments	*?*
Cash flow from financing activities	XXX
Net change in cash and cash equivalents	XXX
Cash and cash equivalents at beginning of year	XXX
Cash and cash equivalents at end of year	XXX

Use the following format to identify changes to fixed assets (summary of note):

FA = Fixed Assets; BS = Balance Sheet; IS = Income Statement.

FA at beginning of year	XXX	←This figure comes from the BSYear 1.
+ FA purchased	Add: XXX	← You will be able to calculate one of these figures as a missing figure needed for the preparation of the CFS.
– FA sold (at book value)	Less: XXX	
– Depreciation for the year	Less: XXX	←This figure comes from the IS.
= FA at end of year	XXX	←This figure comes from the BS - Year 2.

**Can be shown in the form of an equation.*

Example:

You are provided with the following information from the financial statements.

Complete the appropriate extract from the Cash Flow Statement.

	Year 2	**Year 1**
NON-CURRENT ASSETS	770 000	480 000
Fixed Assets	650 000	430 000
Investment in fixed deposit	120 000	50 000

Note:

- The Income Statement reflects depreciation of R35 000.
- Fixed assets were sold at carrying value for R22 000.

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Solution:

Calculate the amount for fixed assets purchased, as follows:

Fixed assets at beginning of year	430 000
+ Fixed assets purchased	*missing figure*
- Fixed assets sold (carrying value)	(22 000)
- Depreciation	(35 000)
- Fixed assets at end of year	650 000

Calculation of the missing figure:

Extract from Cash Flow Statement

Cash flow from investing activities	net cash outflow	**(325 000)**
Purchase of fixed assets outflow 430 000 – 22 000 – 35 000 – 650 000		(277 000)
Proceeds from sale of assets	inflow	22 000
Increase / Decrease in investments (120 000 – 50 000) outflow		(70 000)

Let's practice

You are provided with the following information from the financial statements.

Complete the extract from the Cash Flow Statement.

	2017	**2016**
NON-CURRENT ASSETS	323 000	505 000
Fixed Assets	83 000	205 000
Investment in fixed deposit	240 000	300 000

Note:

- The income statement reflects depreciation of R44 000.
- Fixed assets of R52 000 were bought during the 2017 financial period.

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Answer

Cash flow from investing activities	
Purchase of fixed assets	
Proceeds from sale of assets	
Decrease in investments	

Solution:

Cash flow from investing activities	net cash outflow	**138 000**
Purchase of fixed assets	outflow	(52 000)
Proceeds from sale of assets (205 000 + 52 000 – 44 000 – 83 000)	inflow	130 000
Decrease in investments (300 000 – 240 000)	inflow	60 000)

4.3 Cash Flow from Financing Activities

Financing activities are the activities involved in funding the infrastructure of the company. They result in a change in the size and composition of the debt and the capital funding. ***Examples of financing activities include:*** new issue of shares; repurchasing of shares; raising a loan; repayment of a loan.

CASH FLOW STATEMENT FOR THE YEAR ENDING	
Cash flow from operating activities	XXX
Cash flow from investing activities	XXX
Cash flow from financing activities	***?***
Proceeds from shares issued	*?*
Repurchasing of shares	*?*
Loans received/repaid	*?*
Net change in cash and cash equivalents	XXX
Cash and cash equivalents at beginning of year	XXX
Cash and cash equivalents at end of year	XXX

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Example

Study the given information to complete the table that follows.

	Year 2	Year 1
SHAREHOLDERS' EQUITY	XXX	XXX
Ordinary share capital	1 579 500	900 000
Retained income	XXX	XXX
NON-CURRENT LIABILITIES	330 000	210 000
Loans	330 000	210 000

Note:

- At the end of Year 1, there were 150 000 shares in issue.
- During Year 2, 100 000 shares were issued at a price of R8,55 per share.
- During Year 2, 25 000 shares were repurchased from a disgruntled shareholder at a price of R12,00 each.

CASH FLOW STATEMENT FOR YEAR ENDED…….	
Cash effects of operating activities	XXX
Cash effects of investing activities	XXX
Cash effects of financing activities inflow	**675 000**
Proceeds of shares issued **100 000 shares x R8,55 per share inflow**	**855 000**
Shares repurchased **25 000 shares x R12,00 per share (outflow)**	**(300 000)**
Loans received/repaid **(330 000 – 210 000) inflow**	**120 000**
Net change in cash & cash equivalents	XXX
Cash & cash equivalents at beginning of year	XXX
Cash & cash equivalents at end of year	XXX

Explanations

Proceeds of shares issued:

You can't just subtract the figures of year 1 from year 2 to get this figure. You must read the additional information to determine how many shares were issued during the year and at what price.

In some instances, you must be able to complete the note of Ordinary Share Capital in the financial statements to calculate this figure.

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Shares Repurchased:

This is the total amount that the business has paid to repurchase the shares from shareholders.

If you are only given the above average amount per share, you must calculate the average price of these shares on the day of repurchasing and add the above average amount, then multiply bythe number of shares repurchased.

Let's practice

Use the given information to complete the table that follows, by substituting the "?" with the correct figures.

You are provided with the following information from the financial statements:

	Year 2	Year 1
SHAREHOLDERS' EQUITY	XXX	XXX
Ordinary share capital	1 575 000	2 800 000
Retained income	XXX	XXX
NON-CURRENT LIABILITIES	870 000	1 590 000
Loans	870 000	1 590 000

Note:

- At the end of Year 1, there were 200 000 shares in issue.
- During Year 2, one of the shareholders passed away. The directors decided to buy-back his 50 000 shares at R1,50 above the average price.
- No further shares were issued during the year.

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Answer

CASH FLOW STATEMENT FOR YEAR ENDED……	
Cash effects of operating activities	XXX
Cash effects of investing activities	XXX
Cash effects of financing activities	?
Proceeds of shares issued	?
Shares repurchased	?
Loan received/repaid	?
Net change in cash & cash equivalents	XXX
Cash & cash equivalents at beginning of year	XXX
Cash &cash equivalents	XXX

Solution:

CASH FLOW STATEMENT FOR YEAR ENDED……	
Cash effects of operating activities	XXX
Cash effects of investing activities	XXX
Cash effects of financing activities	(1 495 000)
Proceeds of shares issued	0
Shares repurchased 2800 000/200 000 = R14 + R1,50 = (R15,5 X 50 000)	(775 000)
Loan received/repaid (1590 000 – 870 000)	(720 000)
Net change in cash & cash equivalents	XXX
Cash & cash equivalents at beginning of year	XXX
Cash &cash equivalents	XXX

4.4 Cash and Cash Equivalents (Balance Sheet note)

Cash: Cash on hand (Petty cash and cash float)

Cash equivalents: Includes cash held as bank deposits in the current account, deposits in a savings account (short term investments) and short-term maturities (fixed deposits that will mature within the next 12 months).

CASH FLOW STATEMENT FOR THE YEAR ENDING ……	
Cash effect of operating activities	XXX
Cash effect of investing activities	XXX
Cash effect of financing activities	XXX
Net change in cash and cash equivalents	XXX
Cash and cash equivalents at beginning of year	XXX
Cash and cash equivalents at end of year	XXX

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Example 1 - *(an **increase in cash** balances - **inflow**)*

	2017	2016
Current assets	xxx	Xxx
Inventory	xxx	Xxx
Trade and other receivables	xxx	Xxx
Cash and cash equivalents	48 200	18 600

Solution (Example 1)

Complete the appropriate section in the Cash Flow Statement	
Net change in cash and cash equivalents **(48 200 – 18 600) – an inflow of cash**	29 600#
Cash and cash equivalents at beginning of year	18 600
Cash and cash equivalents at end of year	48 200

Note that *an **inflow of cash** constitutes an amount **without brackets.***

Example 2 - *(a **decrease in cash** balances - **outflow**)*

	2017	**2016**
Current assets	XXX	XXX
Inventory	XXX	XXX
Trade and other receivables	XXX	XXX
Cash and cash equivalents	13 700	135 800

Solution (Example 2)

Complete the appropriate section in the Cash Flow Statement	
Net change in cash and cash equivalents **(135 800 – 13 700) – an outflow of cash**	(122 100)##
Cash and cash equivalents at beginning of year	135 800
Cash and cash equivalents at end of year	13 700

Note that an **outflow of cash** constitutes an amount **between brackets.**

Example 3 - (what to do in the case of an **overdraft**)

You are provided with the following information from the financial statements:

	Year 2	Year 1
Current Assets	xxx	xxx
Inventories	xxx	xxx
Trade & other receivables	xxx	xxx
Cash & cash equivalents	6 000	9 000
	Year 2	Year 1
Current Liabilities	xxx	xxx
Bank overdraft	xxx	180 000
Trade & other payables	xxx	xxx

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Complete ***the appropriate section*** in the Cash Flow Statement	
Net change in cash and cash equivalents **(171 000 + 6 000) - inflow**	177 000###
Cash and cash equivalents at beginning of year (-180 000 + 9 000)	(171 000)
Cash and cash equivalents at end of year	6 000

We must first deposit the R171 000 to make the bank balance R0, and then a further R6 000, i.e. (R171 000 + R6 000 = R177 000).

Let us practice 1: You are provided with the following information:

	Year 2	Year 1
CURRENT ASSETS	XXX	XXX
Inventories	XXX	XXX
Trade & other receivables	XXX	XXX
Cash & cash equivalents	225 000	90 000

Complete the following by providing a figure in each cell indicated with a "?"

CASH FLOW STATEMENT FOR YEAR ENDED….	
Cash effect of operating activities	XXX
Cash effect of investing activities	XXX
Cash effect of financing activities	XXX
Net change in cash and cash equivalents	?
Cash and cash equivalents at beginning of year	?
Cash and cash equivalents at end of year	?

CASH FLOW STATEMENT FOR YEAR ENDED….	
Cash effect of operating activities	XXX
Cash effect of investing activities	XXX
Cash effect of financing activities	XXX
Net change in cash and cash equivalents	135 000
Cash and cash equivalents at beginning of year	90 000
Cash and cash equivalents at end of year	225 000

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Let us practice 2

Refer to the given information and complete the table below by substituting each "?" with the correct figure.

	Year 2	Year 1
CURRENT ASSETS	xxx	xxx
Inventories	xxx	xxx
Trade & other receivables	xxx	xxx
Cash &cash equivalents	18 000	27 000
	Year 2	Year 1
CURRENT LIABILITIES	XXX	XXX
Bank overdraft	xxx	147 000
Trade & other payables	xxx	xxx

CASH FLOW STATEMENT FOR THE YEAR ENDED……	
Cash effect of operating activities	XXX
Cash effect of investing activities	XXX
Cash effect of financing activities	XXX
Net change in cash & cash equivalents	?
Cash & cash equivalents at beginning of year	?
Cash & cash equivalents at end of year	?

CASH FLOW STATEMENT FOR THE YEAR ENDED……	
Cash effect of operating activities	XXX
Cash effect of investing activities	XXX
Cash effect of financing activities	XXX
Net change in cash & cash equivalents	(102 000)
Cash & cash equivalents at beginning of year(147 000 – 27 000)	120 000
Cash & cash equivalents at end of year	18 000

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4.5 Activities

ACTIVITY1: CASH FLOW STATEMENT

The following information was obtained from the accounting records of DBE Ltd on 31 December 2018, which is its financial year-end. The company has an authorised share capital of 750 000 ordinary shares.

REQUIRED:

1.1 Complete the Cash Flow Statement for the year ended 31 December 2018. Show all workings to obtain part-marks. (27)

INFORMATION:

A. Extract from the Income Statement for the year ended 31 December 2018:

Interest on loan	27 000
Interest on overdraft	380
Depreciation	58 000
Income tax	23 000
Net profit before income tax	100 000

B. Information from the Balance Sheet:

	2018 R	2017 R
Ordinary share capital	678 000	440 000
Retained income	73 000	56 000
Loan: TK Bank	130 000	170 000
Fixed assets (carrying value)	549 000	420 000
Inventory	61 000	73 000
Trade and other receivables	214 320	150 600
Bank (favourable)	30 130	-
Bank overdraft	-	10 000
Cash float	1 000	1 000
Trade and other payables	158 400	152 550
SARS: Income tax*	4 000 (Dr)	10 000 (Cr)
Shareholder dividends*	28 000	22 000

*Included above in Trade and other receivables and Trade and other payables.

C. Total dividends for the year amounted to R60 000.

D. New equipment was purchased, and a vehicle was sold during the year, at its carrying value of R17 000.

E. Shares to the value of R400 000 were repurchased during the year. This transaction was recorded.

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ACTIVITY 2

You are provided with information from the records of Pretoria Ltd for the financial year ended 29 February 2016. This is a public company listed on the JSE.

REQUIRED:

2.1 Calculate the missing figures indicated by **A to F** on the Cash Flow Statement. Show workings to earn part-marks.

INFORMATION:

A. The company was registered with an authorised share capital of 1 000 000 ordinary shares.

On 29 February 2016, after all movements to the share capital account were recorded, the issued share capital comprised 625 000 ordinary shares.

B. Information extracted from the Income Statement on 29 February 2016:

Sales	6 200 000
Depreciation	425 000
Interest on loan	188 000
Net profit before tax	1 600 000
Net profit after tax	1 120 000

C. Information extracted from the Balance Sheet:

	2016	**2015**
Fixed Assets (carrying value)	7 350 000	6 931 000
Current Assets	610 000	422 000
Inventories	235 000	90 000
Trade and other receivables	262 000	330 000
SARS (Income tax)	14 000	-
Cash and cash equivalents	99 000	2 000
TOTAL ASSETS	7 960 000	7 353 000
Shareholders' Equity	5 503 000	4 023 000
Ordinary share capital	4 700 000	3 800 000
Retained income	803 000	223 000
Non-current Liabilities: Venus Bank	2 100 000	2 800 000
Current Liabilities	357 000	530 000
Trade and other payables	132 000	180 000
SARS (Income tax)	-	28 000
Shareholder dividends	225 000	200 000
Bank overdraft	-	122 000
TOTAL EQUITY AND LIABILITIES	7 960 000	7 353 000

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D. 150 000 new shares were issued during the year, at R8 each.

E. On 26 February 2016, the company bought back 57 500 shares from disgruntled shareholders, at 600 cents each.

F. An interim dividend of R270 000 was paid on 30 June 2015.

G. Fixed assets were sold during the year, at a carrying value of R86 000. Additional equipment was purchased to replace the assets sold.

H. **CASH FLOW STATEMENT FOR YEAR ENDED 29 FEBRUARY 2016**

CASH EFFECT OF OPERATING ACTIVITIES	
Cash generated from operations	
Interest paid	**A**
Income tax paid	**B**
Dividends paid	**C**
CASH EFFECT OF INVESTING ACTIVITIES	
Fixed assets purchased	**D**
Proceeds from sale of fixed assets	**E**
CASH EFFECT OF FINANCING ACTIVITIES	
Proceeds of shares issued	**F**
Repurchase of shares	**G**
Increase/ Decrease in loans	**H**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**I**
Cash and cash equivalents at beginning of year	**J**
Cash and cash equivalents at end of year	**K**

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ACTIVITY 3

The information below was extracted from the books of Mpumalanga Ltd. Study the information and answer the questions that follow.

REQUIRED:

3.1 Prepare the reconciliation between net profit before tax and cash generated from operations. (Show workings in brackets)

3.2 3.2.1 Calculate the figure for Income Tax that appeared in the Cash Flow Statement on 30 June 2018.

3.2.2 Calculate the figure for Dividends that appeared in the Cash Flow Statement on 30 June 2018.

3.4 Complete the 'Cash Flow from investing activities' section of the Cash Flow Statement on 30 June 2018.

3.5 Complete the 'Cash Flow from financing activities' section of the Cash Flow Statement on 30 June 2018.

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INFORMATION

1.

EXTRACT FROM THE BALANCE SHEET (Statement of Financial Position) ON 30 JUNE 2015		
	2018	**2017**
ASSETS		
NON-CURRENT ASSETS		
Fixed assets	1 039 500	774 800
Financial assets	140 000	190 000
CURRENT ASSETS		
Inventory	1 145 000	1 150 000
Trade and other receivables	1 143 000	1 139 000
CAPITAL AND RESERVES		
ORDINARY SHAREHOLDERS' EQUITY	2 500 000	1 285 100
Ordinary share capital	2 160 000	1 200 000
Retained Income	340 000	85 100
LOAN	450 000	970 000
CURRENT LIABILITIES		
Trade and other payables	1 185 000	929 000

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2. **Notes to the Balance Sheet**

(Statement of Financial Position)	**2018**	**2017**
1. **FIXED ASSETS**	1 039 500	774 800
Land and Buildings	950 000	700 000
Equipment (book value)	89 500	74 800
2. **TRADE AND OTHER RECEIVABLES**	1 143 000	1 139 000
Debtors' Control	1 115 000	1 130 000
Prepaid Expenses	10 000	9 000
SARS: Income Tax	18 000	-
3. **TRADE AND OTHER PAYABLES**	1 185 000	929 000
Creditors Control	955 000	850 400
SARS: Income Tax	-	5 000
Shareholders for Dividends	230 000	74 000

ADDITIONAL INFORMATION

3.1 **Ordinary share capital:**

- 1 July 2014: 120 000 shares issued @ R10 each.
- 1 January 2015: 80 000 new shares issued @ R15 each. (These shares did not qualify for interim dividends.)
- 30 June 2015: repurchased 20 000 shares @ R14 each.

3.2 **Depreciation**

- Total depreciation for the year amounted to R18 500.

3.3 **Sale of equipment**

- Equipment was sold at carrying value of R19 430.

3.4 **Net Profit before tax**

- Net Profit before tax amounted to R625 000.

3.5 **Dividends**

- The interim dividend of 80 cents per share was declared and paid on 3 January 2018. The final dividend was declared on 30 June 2018.

3.6 **Loan**

Interest capitalised for the year was R115 000.

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ACTIVITY 4

The following information relates to Tambo Ltd. The financial year ends on 31 May each year.

4.1 CASH FLOW STATEMENT

REQUIRED:

4.1.1 Calculate the following amounts for the Cash Flow Statement:

- Taxation paid (4)
- Dividends paid (4)

4.1.2 Prepare the following note to the Cash Flow Statement:

- Prepare the cash generated from operations (14)

4.1.3 Complete the following from the Cash Flow Statement:

- Cash flow from investing activities (9)
- Cash flow from financing activities (5)
- Net change in cash equivalents (4)

INFORMATION:

A. Share capital and dividends:

Additional shares were issued on 1 November 2016 for R383 000.
The company bought 10 000 shares back from a shareholder on 31 March 2017, at R2,50 per share.
The Interim dividend paid on 30 November 2016 was R72 000.

B. Fixed assets :

- Equipment was disposed of at carrying value during the year.
- New fixed assets were purchased at R680 000 during the year.

C. Extract from the Income Statement for the year ended 31 May 2017:

Depreciation	R135 700
Interest expense	76 500
Income tax	303 880
Net profit before tax	995 900

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D. Extract from the Balance Sheet of Celine Ltd. on 31 May 2017

	2017	2016
Fixed assets at carrying value	R1 584 190	R1 101 500
Financial Assets:		
Investments	750 000	960 000
Current assets	**376 000**	**335 400**
Inventories	112 000	174 000
Trade and other receivables:	128 000	156 000
Trade debtors	119 600	122 000
SARS: Income tax	8 400	0
Expenses prepaid	0	34 000
Cash and cash equivalents	136 000	5 400
Long-term liabilities: Loan	500 000	580 000
Current liabilities	**233 600**	**479 300**
Trade creditors	94 600	144 000
SARS: Income tax	0	33 800
Shareholder dividends	130 000	98 000
Income received in advance	9 000	0
Bank overdraft	0	203 500

ACTIVITY 1 (Answer sheet)

Note 1: Cash generated from operations	
Net Profit *before* tax	
Add: Depreciation	
Add: Interest expense	
Sub-total	
Net changes in working capital	
Change in inventory	
Change in receivables	
Change in payables	
Cash generated from operations	

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1.1 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CASH EFFECTS OF OPERATING ACTIVITIES		
Cash generated from operations		
Interest paid		
Dividends paid		
CASH EFFECTS OF INVESTING ACTIVITIES		
Fixed assets purchased		
CASH EFFECTS OF FINANCING ACTIVITIES		
NET CHANGE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year		**27**

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ACTIVITY 2 (Answer sheet)

2.1 Provide the missing figures indicated by A to F in the Cash Flow Statement. Show workings to earn part-marks.

A	
B	
C	
D	
E	
F	
G	
H	
I	
J	
K	

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ACTIVITY 3 (Answer sheet)

MPUMALANGA LIMITED

NOTES TO THE CASH FLOW STATEMENT		
	RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS	
	Net Profit before tax	
	Adjustment in respect of:	
	Depreciation	
	Interest on Loan	
	Operating profit before change in working capital	
	Net change in working capital	
	Cash generated from operations	

	Calculate the figure for Income Tax that appeared in the Cash Flow Statement on 30 June 2018

	Calculate the figure for Dividends that appeared in the Cash Flow Statement on 30 June 2018

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	Cash flow from investing activities	

	Cash flow from financing activities	

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ACTIVITY 4

TAMBO LIMITED

4.1 Calculate the following amounts for the Cash Flow Statement:

4.1.1

Taxation paid	
	4

4.1.1

Dividends paid	
	4

4.1.2 Prepare the following note to the Cash Flow Statement

Net profit before tax	**995 900**	
Adjustment for :		
Depreciation	**135 700**	
Interest on loan/expense		
Profit before changes in working capital		
Change in Working capital		
Cash generated from operations		**14**

13

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4.1.2

Cash flow from investing activities	

5

4.1.3

Cash flow from financing activities	

5

4.1.4

Net change in cash and cash equivalents	

4

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5. Check your Answers

ACTIVITY 1 (1.1)

Note 1: Cash generated from operations	
Net Profit *before* tax	✓100 000
Add: Depreciation	✓58 000
Add: Interest expense	✓27 380
Sub-total	☑185 380
Net change in working capital	**☑(37 870)**
Changein inventory	✓✓12 000
Change in receivables	✓✓(59 720)
Change in payables	✓✓9 850
Cash generated from operations	**☑147 510**

1.2 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CASH EFFECT OF OPERATING ACTIVITIES	29 130	☑
Cash generated from operations	**147 510**	
Interest paid	(27 380)	✓
Dividends paid (60 000✓ + 22 000✓ – 28 000✓)	(54 000)	☑
Income tax paid (10 000✓ + 4 000✓ + 23 000✓)	(37 000)	☑
CASH EFFECT OF INVESTING ACTIVITIES	(187 000)	☑
Fixed assets purchased (549 000✓ + 58 000✓ + 17 000✓ – 420 000✓)	(204 000)	☑
Proceeds from disposal of fixed assets	17 000	✓
CASH EFFECT OF FINANCING ACTIVITIES	198 000	☑
Proceeds from shares issued	638 000	✓
Repurchase of shares	(400 000)	✓
Decrease in loan	(40 000)	✓
NET CHANGE IN CASH AND CASH EQUIVALENTS	40 130	✓
Cash and cash equivalents at beginning of year (-10 000✓ + 1 000✓)	(9 000)	✓
Cash and cash equivalents at end of year	31 130	☑

27

ACTIVITY 2

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2.1 **Provide the missing figures indicated by A to F in the Cash Flow Statement. Show workings to earn part-marks.**

A	188 000 ✓
B	(1 600 000 – 1 120 000) 480 000✓ + 28 000✓ + 14 000✓ = (522 000) ☑
C	200 000✓ + 270 000✓ = (470 000) ☑ Or 495 000 + 200 000 – 225 000 = (470 000)
D	7 350 000✓ + 425 000✓+ 86 000✓ – 6 931000✓ = (930 000)☑
E	86 000✓
F	150 000 x 8 = 1 200 000 ✓✓
G	57 500 x 6 = (345 000) ✓✓
H	2 800 000 – 2 100 000 = (700 000) ✓✓
I	99 000✓ + 120 000✓ = 219 000☑
J	2 000✓ – 122 000✓ = (120 000)☑
K	99 000✓

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ACTIVITY 3

MPUMALANGA LIMITED

NOTES TO THE CASH FLOW STATEMENT		
	RECONCILIATION BETWEEN NET PROFIT BEFORE TAXATION AND CASH GENERATED FROM OPERATIONS	
	Net profit before tax	✓ 625 000
	Adjustment in respect of:	
	Depreciation	✓187 500
	Interest on Loan	✓115 000
	Operating profit before change in working capital	927 500
	Net change in working capital	123 600
	Decrease in inventory	✓✓ 5 000
	Increase in Trade and other receivables(1125000 – 1139000)	✓✓14 000
	Increase in Trade and other payables(955 000 – 850 400)	✓✓104 600
	Cash generated from operations	☑1 051 100

	Calculate the figure for Income Tax that appeared in the Cash Flow Statement on 30 June 2018
	- 187 500 ✓– 5 000 ✓- 18 000✓= 210 500 ☑ + 187 500 + 5 000 + 18 000 = 210 500

	Calculate the figure for Dividends that appeared in the Cash Flow Statement on 30 June 2018
	74 000 ✓+ 96 000✓ = (170 000) ✓ 326 000 + 74 000 – 230 000 = 170 000

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	Cash flow from investing activities	
	Fixed assets purchased (1 039 500✓+18 500✓ + 19 430✓- 774 800✓)	(302 630)
	Proceeds from thesale of fixed assets	19 430✓
	Fixed deposit matured	50 000✓
		(233 200) ☑

	Cash flow from financing activities	
	Proceeds from the sale of shares (80 000 x R15)	1 200 000✓✓
	Repurchase of shares (20 000 x R14)	(280 000) ✓✓
	Repayment of loan (970 000 – 450 000)	(520 000) ✓✓
		400 000☑

ACTIVITY 4

TAMBO LIMITED

4.1 Calculate the amount that would appear in the Cash Flow Statement for:

4.1.1

Taxation paid	
+ 33 800 ✓+ 303 880✓ + 8 400✓ = 346 080☑ – 33 800– 303 880 – 8 400 =–346 080 (33 800) (303 880 (8 400) =(346 080)	4

4.1.1

Dividends paid	
98 000 ✓+ (202 000✓– 130 000 ☑) = 170 000 ☑ **OR** 98 000 + 72 000 two marks= 170 000	**4**

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4.1.2 Prepare the following note to the Cash Flow Statement

Net profit before tax	**995 900**
Adjustment for :	
Depreciation	**135 700**
Interest on loan/expense	✓ 76 500
Profit before change in working capital	☑1 208 100
Change in Working capital	☑58 000
Decrease in inventory (174 000 – 112 000)	✓✓62 000
Decrease in debtors (119 600 ✓ – [122 000 ✓ + 34 000✓])	☑36 400
Decrease in creditors ([94 600 ✓ + 9 000]✓– 144 000✓	☑(40 400)
Cash generated from operations	☑1 266 100

14

4.1.3

Cash flow from investing activities	☑ (408 390)
Purchase of fixed assets	✓ (680 000)
Proceeds from sale of non-current assets (1 101 500✓+ 680 000✓ – 135 700✓– 1 584 190✓)	☑61 610
Decrease in investments (960 000 –750 000)	✓✓210 000
Cash flow from financing activities	☑278 000
Proceeds from the issue of share capital	✓383 000
Repurchase of shares (10 000 x R2,50)	✓✓ (25 000)
Repayment of long-term borrowings	✓ (80 000)

9

Net change in cash equivalents	✓334 100
Cash and cash equivalents – beginning (5 400 – 203 500)	✓✓ (198 100)
Cash and cash equivalents – end	✓136 000

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6. Message to grade 12 learners from the writers

"Begin with the end in mind."

At the end of your journey in the GET phase, you were required to choose a subject set that will shape your career path. Hopefully, your choice was based on your aptitude, ambition and desire to become a successful individual, with a comfortable standard of living.

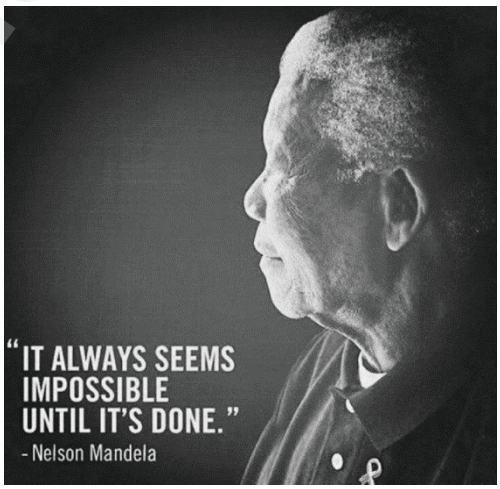
Let's be frank! Accounting is not for the faint-hearted. There are NO short-cuts. Success in Accounting demands hard work and dedication, but the rewards are satisfying.

Questions and topics covered in the examination papers are very predictable. You need to just extract the NSC papers for the last three years from the internet and compare the questions. If you do this, you will become familiar with the commonly asked questions and the style and format of the paper. You will also gain insight into the different ways in which questions can be asked.

Practice every day, do not be afraid to ask questions, engage in group studies and attend the many intervention programmes organized by your school and your Department of Education.

Effective planning ensures that you:

Know the rules of the game and play it better than others.z



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7. Thank you

This Accounting module on the Cash Flow Statement was developed by Mr P Govender, Mr A Leeuw, Mr M.P Shabalala, Mr Dorian Olifant and Ms ZJM Mampana (Subject Specialists, PED)

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Look out for more modules that deal with other topics of the Grade 12 syllabus.

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ACCOUNTING

CASH FLOW STATEMENT

GRADE 12

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