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Grade 12 Accounting

Company Cash Flow Statement Summary

Also view you tube for a different example and explanation:

<https://www.youtube.com/watch?v=dwRWDIHTFBg>

This summary is an excellent tool for revision before tests / examinations.

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1. How to prepare for this section:

Cash Flow Statement

1.1 Why?

The Cash Flow Statement explains the change in Cash and Cash Equivalents between two financial periods, as shown in the balance sheet. It is an essential management tool to analyse the cash flow position of a business and to take decisions accordingly. It gives a breakdown of the individual components that were responsible for the change in Cash and Cash Equivalents.

1.2 Where?

The Cash Flow Statement forms part of the financial statements of a business. A complete set of financial statements would thus consist of an Income Statement, Balance Sheet and Cash Flow Statement.

1.3 Source of information?

All the information required to complete the Cash Flow Statement is available from the Balance Sheet and the Notes to the Balance Sheet.

1.4 How?

Step 1:	It is suggested that you first do the section on company ledgers as it is essential for the understanding of the cash flow statement.	
Step 2	You have to know the format of the Cash Flow Statement and its notes. The notes are shown after the Cash Flow Statement, but you have to complete the notes first before you can do the cash flow statement.	
Step 3	Work through tutorials / mock tests	
Step 4	Revise by going through this <u>summary</u> before your test / examination.	

2 Brief revision of notes

Cash Generated from operations:

Note 1

Reconciliation between profit before taxation and cash generated from operations.

Explanatory notes (not be shown in test / examinations)

Net profit before tax	50 000	Tax is excluded, the purpose is to find profit from operations, tax is levied afterwards.
Adjustments:	4 000	(Depreciation + Interest expense)
Depreciation	2 500	Depreciation is not a cash item, it was subtracted in the income statement, now we add it back to cancel the initial entry.
Interest expense	1 500	Interest expense is a financing expense, not an operating expense, it was subtracted in the income statement, now we add it back to cancel the initial entry.
Operating profit before changes in working capital	54 000	(Net profit before tax + Adjustments)
Changes in working capital	1 000	(inventory + debtors + creditors)
Decrease in Inventory	3 000	This is the actual change between two periods in your balance sheet, i.e. it includes trading stock and consumable stores on hand. A decrease means that we sold stock, so we received money: inflow of cash. An increase means we purchased stock, therefore cash outflow.
Increase in Debtors	(7 000)	Information comes from the change between two periods in the trade and other receivables note, exclude SARS and interest because it is shown separately in the Cash Flow Statement. A decrease means we received money from debtors: inflow An increase means we had more credit sales, therefore less cash: outflow.
Increase in Creditors	5 000	Information comes from the change between two periods in the trade and other payables note, exclude SARS, Interest and Shareholders for Dividends because it is shown separately. An increase means we purchased more on credit and therefore we have more cash available: inflow A decrease means we paid back creditors, therefore less cash: outflow.
Cash generated from operations	55 000	(Operating profit before changes in working capital + working Capital)

Note 2

Change in Cash and Cash Equivalents

	Net Change	2011	2010	
Bank	20,000	8,000	(12,000)	To get from -12000 to 0 you had to deposit 12000 and then an additional 8000 deposit to get from 0 to + 8000.
Petty Cash	100	1,100	1,000	
Cash float	(200)	2,000	2,200	
Fixed deposit maturing within 12 months	300	300	-	
Change in cash and cash equivalents	20,200	11,400	(8,800)	This amount is equal to the difference in your Balance Sheet between Cash and Cash Equivalents for the two years compared. It is also equal to the answer of your cash flow statement



Note 3

Dividends paid

		Explanations - don't show in test / examination. This note contains all the information from the Shareholders for Dividends T account in the General Ledger. It is suggested that you draw up the T account in rough to help you with this calculation.
Balance on first day of financial year	4,000	Final dividends from last year, from your trade and other payables note. (a)
Dividends for the year	7,230	Interim + final dividends (b)
Balance on last day of financial year	(4,730.00)	Balance of the ledger account at year end, equal to the amount of final dividends, from your trade and other payables note (c)
Amount paid for dividends	6,500	This amount is equal to payment of final dividends from last year and the payment of interim dividends from this year It is calculates as: (a + b + c) from above.



Note 4

Income tax paid



		Explanations - don't show in test / examination. This note contains all the information from the SARST account in the General Ledger. It is suggested that you draw the T account in rough to help you understand this calculation.
Balance on first day of financial year	1000	Amount due to SARS due to short payment last year (d) – part of trade and other payables, credit balance in GL
Income Tax for the year	28000	From income statement (e)
Balance on last day of financial year	2000	Balance of the ledger account at year end, in this instance SARS was overpaid and it has a debit balance in the General Ledger, If it was a credit balance you would minus it. (f)
Amount paid for income tax	31000	This amount would usually be equal to final dividends from last year and the interim dividends from this year. (d + e + f)

Additional calculations:

Calculation 1

Purchase of fixed assets (Same format as the tangible asset note in the balance sheet)

Assets at the beginning of the year at book Value	100,000	(From Balance sheet)
Purchases at cost Price	X	
Depreciation	(25,000)	(From income Statement)
Disposals at carrying value	(5,000)	(Given)
Assets at the end of the year at book Value	180,000	(From Balance sheet)

Solve X:

$$100000 + X - 25000 - 5000 = 180000$$

$$X = -100000 + 25000 + 5000 + 180000$$

$$X = 110\,000$$

Calculation 2

Interest Paid (The easiest way to calculate this is to do a rough reconstruction of the T Account)

Interest Paid (Expense Account)					
Bank	X	Actual amount paid	Accrued expense	7500	(Reversal entry at start of financial year)
Accrued Expense	2500	(Amount due at the end of the current year)	Profit and Loss	1500	From income Statement
	9000			9000	

Solve X

$$X = 7500 + 1500 - 2500$$

$$X = 6500$$



3. Brief Revision of Cash Flow Statement

Cash Flow Statement of Grade 12 Ltd for the year ending 28 February 2011

Cash flows from operating activities (a) Notes 11,000

Cash generated from operations	(1)	55,000
Dividend Paid	(3)	(6,500)
Income tax paid	(4)	(31,000)
Interest Paid (I)		(6,500)

Cash flows from investing activities (b) (30,000)

Decrease / increase in financial assets	-	
Purchase of non-current assets (II)		(110,000)
Proceed of sale of non-current assets (III)		80,000

Cash flow from financing activities (c) 39,200

Repurchase of shares	-	
Proceeds from issue of Share Capital (IV)		30,000
Payment of capital portion of long term loan		-
Proceeds from non-current loan (V)		9,200

Net Change in cash and cash equivalents (a+b+c) (2) 20,200

Balance at the start of the year (VI) (8,800)

Balance at the end of the year (VI) 11,400

- I. This is the bank Amount in your Interest Expense General Ledger Account, the actual payment which could be different from the profit and loss amount
- II. As per additional calculations to notes
- III. Note 3 in the balance sheet
- IV. Share capital
- V. From mortgage loan in the balance sheet
- VI. Cash and cash equivalents in the balance sheet

4 Example of Complete Cash Flow Statement and Notes

Cash Flow Statement of Grade 12 Ltd for the year ending 28 February 2011

Cash flows from operating activities		11,000
Cash generated by operations	(1)	55,000
Dividend Paid	(3)	(6,500)
Income tax paid	(4)	(31,000)
Interest Paid		(6,500)
Cash flows from investing activities		(30,000)
Decrease / increase in financial assets	-	
Purchase of tangible assets		(110,000)
Disposal of assets		80,000
Cash flow from financing activities		39,200
Repurchase of shares	-	
Proceeds from issue of share capital		30,000
Payment of capital portion of long term loan		-
Proceeds from long term loan		9,200
Net Change in cash and cash equivalents	(2)	20,200
Balance at the start of the year		(8,800)
Balance at the end of the year		11,400

Note 1

Reconciliation between profit before taxation and cash generated from operations.

Net profit before tax	50,000
Adjustments:	4,000
Depreciation	2,500
Interest expense	1,500
Operating profit before changes in working capital	54,000
Changes in working capital	1,000
Decrease in Inventory	3,000
Increase in Debtors	(7,000)
Increase in Creditors	5,000
Cash generated from operations	55,000

Note 2

Change in cash and cash equivalents

	Change	2011	2010
Bank	20,000	8,000	(12,000)
Petty Cash	100	1,100	1,000
Cash float	(200)	2,000	2,200
Fixed deposit maturing within 12 months	300	300	-
Net change in cash and cash equivalents	20,200	11,400	(8,800)

Note 3

Dividends paid

Balance on first day of financial year	4,000
Dividends for the year	7,230
Balance on last day of financial year	-4,730
Amount paid for dividends	6,500

Note 4

Income tax paid

Balance on first day of financial year	1,000
Income Tax for the year	28,000
Balance on last day of financial year	2,000
Amount paid for income tax	31,000

End of Cash Flow Statement Summary