

Chapter 7 Cash Flow Statement

Advantages

- ❖ Cash flow balances are a matter of fact and are not distorted by accounting policies
- ❖ Cash flow balances are objective, unlike profit which is subjective
- ❖ Users of financial statements can establish exactly the cash generation of a business
- ❖ Users can identify exactly how this cash has been utilised
- ❖ Users can assess the liquidity of a business and assess its ability to repay debts as they fall due
- ❖ Loans repaid and received are clearly listed in the cash flow statement
- ❖ Users can assess management attitude to capital expenditure
- ❖ Interest payments are highlighted in the cash flow

Difference between cash flow statement and cash budget

Cash flow statements are:

- ❖ Statutory requirements of plc
- ❖ Historic
- ❖ Prepared for external users
- ❖ Prepared to show resources and uses of cash

Cash budgets are:

- ❖ Prepared for internal users
- ❖ Forecasts
- ❖ Used to plan and control cash flows and to obtain finances when needed

I.A.S. 7 Cash Flow Statement

- ❖ **Cash** comprises cash on hand and demand deposits.
- ❖ **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- ❖ **Cash flows** are inflows and outflows of cash and cash equivalents.
- ❖ **Operating activities** are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
- ❖ **Investing activities** are the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
- ❖ **Financing activities** are activities that result in changes in the size and composition of the equity capital and borrowings of the entity

Performa (IAS-7)**Statement of Cash Flow for the year ended**

	\$	\$
<u>Cash flows from operating activities</u>		
Operating profit (PBIT)		X
Adjustments:		
Goodwill written off		X
Current year Depreciation (calculation)		X
(Profit) / loss on the disposal of a non current asset		(X)/X
(Increase) / Decrease in inventories		(X)/X
(Increase) / Decrease in receivables		(X)/X
Increase / (Decrease) in payables		X/(X)
Interest paid (P & L Interest + Op. Payables – Cl. Payables)		(X)
Taxation paid (P & L Tax + Op. Payables – Cl. Payables)		(X)
Net Cash Flow from Operating Activities		X
<u>Cash flow from investing activities</u>		
Purchase of a non-current asset	(X)	
Sale of a non-current asset	X	
Interest received	X	
Net Cash Flow from Investing Activities		X
<u>Cash flow from financing activities</u>		
Proceeds from the issue of shares with Premium	X	
Issue/Repayment of Debentures/Bank loan	X/(X)	
Dividends paid	(X)	
Cash Flow from Financing Activities		X
Net increase/decrease in cash		X/(X)
Cash and cash equivalents at the beginning of the period		X
Cash and cash equivalents at the end of the period		X

If operating Profit is not given in the question then it is to be calculated by the opening and closing retained earning

	\$
Retained earnings (opening)	X
Profit for the year	<u>X</u>
	X
Dividends paid	(X)
Transfer to General Reserve (If any)	<u>(X)</u>
Retained earnings (closing)	<u>X</u>

Important

RE at start + profit for the year – dividend paid – transfer to GR = RP at end

Profit for the year = RE at end – RE at start – dividend paid – transfer to GR (if any)

If Operating Profit (PBIT) is to be calculated then add Interest Expense and Tax in Net Profit

	\$
Profit for the year	X
Add: Interest Expense	X
Tax	<u>X</u>
Profit before Interest & Tax (PBIT)	<u>X</u>

PBIT – interest paid – tax paid = profit for the year

Calculation of depreciation/new NCA bought

Method 1

Non-Current Asset (NBV)

Balance b/d (NBV) XXX	Disposal (NBV) XXX
Bank (Addition at cost) XXX	Depreciation XXX
	Balance c/d (NBV) <u>XXX</u>

Method 2

Provision for Depreciation

Disposal Depreciation XXX	Balance b/d XXX
Balance c/d <u>XXX</u>	Income Statement <u>XXX</u>
	<u>XXX</u>

Past Paper Questions

Q # 1 Swamp Circus plc provides the following information:

Statements of financial position at

	31 March 2012			31 March 2011		
	\$000	\$000	\$000	\$000	\$000	\$000
Non-current assets						
Intangible						
Patents			220			180
Tangible						
Property			2 400			1 700
Equipment			<u>920</u>			<u>610</u>
			3 540			2 490
Current assets						
Inventory		480			509	
Trade receivables		611			569	
Cash and cash equivalents		<u>79</u>			<u>—</u>	
		1 170			1 078	
Current liabilities						
Trade payables	512			501		
Other payables	76			54		
Taxation	220			195		
Cash and cash equivalents	<u>—</u>	<u>808</u>		<u>71</u>	<u>821</u>	
			<u>362</u>			<u>257</u>
			3 902			2 747
Non-current liabilities						
Debentures			<u>500</u>			<u>400</u>
			3 402			2 347
Equity						
Ordinary share capital			1 500			1 200
Revaluation reserve			700			—
General reserve			400			200
Retained earnings			<u>802</u>			<u>947</u>
			3 402			2 347

Income statement for the year ended 31 March 2012

	\$000
Profit from operations	636
Finance charges	<u>61</u>
	575
Taxation	<u>220</u>
Profit for the year attributable to equity holders	<u>355</u>

Additional information:

1 During the year the directors transferred \$200 000 to the general reserve and paid dividends of \$300000.

2 At 31 March 2011 equipment had cost \$905 000 and was shown after the provision of \$295 000 depreciation. At 31 March 2012 equipment had cost \$1 240 000 and depreciation of \$320 000 had been provided.

3 During the year equipment which had cost \$172 000 was sold for \$90 000. Depreciation of \$101 000 had been provided on it.

4 Other payables include \$21 000 unpaid interest at 31 March 2012 and \$11 000 unpaid interest at 31 March 2011.

5 During the year an issue of both ordinary shares and debentures had taken place, and the property had been re-valued.

REQUIRED

Prepare a statement of cash flows in accordance with the provisions of IAS 7 for the year ended 31 March 2012. [21]

June 2012

Q # 2 Smilbo Smaggins plc has been manufacturing cutlery for many years. It provided the following financial statements:

Statements of financial position at 30 April

	2012		2011	
	\$	\$	\$	\$
Non-current assets				
Plant and machinery		82 500		64 900
Office equipment		<u>34 519</u>		<u>38 355</u>
		117 019		103 255
Current assets				
Inventories	18 758		16 521	
Trade receivables	17 623		12 517	
Cash and cash equivalents	<u>27 754</u>		<u>6 459</u>	
		<u>64 135</u>		<u>35 497</u>
Total assets		181 154		138 752
Current liabilities				
Trade payables	22 758		18 654	
Taxation	<u>5 350</u>		<u>4 200</u>	
		28 108		22 854
Non-current liabilities				
4% Debentures 2020		<u>30 000</u>		<u>50 000</u>
Net assets		<u>123 046</u>		<u>65 898</u>
Equity				
Ordinary share capital		60 000		40 000
Share premium		18 000		8 000
Retained earnings		<u>45 046</u>		<u>17 898</u>
		<u>123 046</u>		<u>65 898</u>

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Income statement for the year ended 30 April 2012

	\$
Revenue	396 672
Cost of sales	<u>259 329</u>
Gross profit	137 343
Distribution costs	32 357
Administrative expenses	<u>70 438</u>
Profit from operations	34 548
Finance costs	<u>1 600</u>
Profit before taxation	32 948
Taxation	<u>5 800</u>
Profit attributable to equity holders	<u>27 148</u>

Additional information:

1 The debentures were redeemed at par.

2 Plant and machinery costing \$27 500 was sold during the year for \$10 000. It had been depreciated by \$19 600.

3 Additional machinery was purchased at a cost of \$35 000. There is no depreciation charge in the year of acquisition.

4 There were no acquisitions or disposals of office equipment during the year.

REQUIRED

(a) Prepare a statement to show the net cash flow from operating activities. [16]

(b) Prepare a statement of cash flows for the year ended 30 April 2012 in accordance with IAS 7. [13]

June 2012

Q # 3 Hyung Ltd has the following statements of financial position

	At 31 March 2012	At 31 March 2011
	\$000	\$000
Non-current assets (note 1)	1 700	1 260
Current assets		
Inventories	108	82
Trade receivables	90	72
Cash and cash equivalents	<u>—</u>	<u>174</u>
	198	<u>328</u>
Current liabilities		
Trade payables	52	108
Cash and cash equivalents	<u>41</u>	<u>—</u>
	93	108
	<u>105</u>	<u>220</u>
Total assets less current liabilities	1 805	1 480
Non-current liabilities		
8% Debentures 2010-2020	<u>120</u>	<u>200</u>
	<u>1 685</u>	<u>1 280</u>
Equity and reserves		
Ordinary shares of \$1 fully paid	1 400	1 000
Share premium	70	50
General reserve	200	200
Retained profits	<u>15</u>	<u>30</u>
	<u>1 685</u>	<u>1 280</u>

Notes

1. Non-current assets

	Freehold Property	Motor Vehicles	Total
	\$000	\$000	\$000
At cost			
At 31 March 2011	2 000	370	2 370
Additions		808	808
Disposals		<u>(240)</u>	<u>(240)</u>
At 31 March 2012	<u>2 000</u>	<u>938</u>	<u>2 938</u>
Provisions for depreciation			
At 31 March 2011	910	200	1 110
Disposals	-	<u>(108)</u>	<u>(108)</u>
Charge for the year	<u>100</u>	<u>136</u>	<u>236</u>
At 31 March 2012	<u>1 010</u>	<u>228</u>	<u>1 238</u>
Net book value at 31 March 2011	<u>1 090</u>	<u>170</u>	<u>1 260</u>
Net book value at 31 March 2012	<u>990</u>	<u>710</u>	<u>1 700</u>

2. Proceeds from the sale of noncurrent assets

	\$
Motor Vehicles	30 000

3. No dividends were paid during the year.

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REQUIRED

(a) Prepare, in accordance with IAS 7, a statement of cash flows for the year ended 31 March 2012. [24]

(b) Explain the difference between cash and profit. [2]

November 2012

Q # 4 Winston is a sole trader. He provides the following financial information in respect of his business.

Income statement for the year ended 31 December 2012

	\$000
Sales	3380
Cost of sales	(2000)
Expenses	<u>(1200)</u>
Profit for the year	<u>180</u>

Statements of financial position at:

	31 December 2011		31 December 2012	
	\$000	\$000	\$000	\$000
Non-current assets				
Freehold land		2000		3500
Plant and machinery at cost	900		1020	
Less: depreciation	<u>(500)</u>		<u>(470)</u>	
Net book value		<u>400</u>		<u>550</u>
		<u>2400</u>		<u>4050</u>
Current assets				
Inventory		310		320
Trade receivables		240		210
Cash and cash equivalents		<u>10</u>		<u>-</u>
		<u>560</u>		<u>530</u>
Current liabilities				
Trade payables		200		160
Bank overdraft		<u>-</u>		<u>530</u>
		<u>200</u>		<u>690</u>
Non-current liability – loan		500		350
Net assets		<u>2260</u>		<u>3540</u>

Additional information

1 During the year the land was revalued by a professional valuer.

2 During the year Winston purchased new plant at a cost of \$200 000. He also sold some plant that had a net book value of \$20 000 and had been depreciated by \$60 000. This resulted in a loss on disposal of \$2000.

REQUIRED

- (a) Calculate Winston's drawings for the year ended 31 December 2012. [4]
 - (b) Prepare a statement of cash flows for the year ended 31 December 2012. [16]
 - (c) Explain why Winston has an overdraft at the end of 2012, despite making a profit for the year. [5]
- June 2013**

Q # 5 The following extract from the income statement has been prepared for Asteroid plc for the year ended 30 June 2014

	\$000
Revenue	11 735
Cost of sales	<u>(5 872)</u>
Gross profit	5 863
Dividends received	750
Gain on disposal of non-current asset	395
Distribution costs	<u>(2 138)</u>
Administrative expenses	<u>(1 574)</u>
Profit from operations	<u>3 296</u>

On 1 May 2014 the directors issued \$5625000 8% debentures redeemable in 2022. The estimated tax liability for the year was \$782000.

REQUIRED

- (a) Calculate the finance costs which would be entered in the income statement. [3]
- (b) Calculate the profit before taxation and profit attributable to equity holders. [2]

Additional information

The last two statements of financial position were as follows:

Statement of financial position at 30 June

	2014 \$000	2013 \$000
Assets		
Non-current assets		
Property, plant and equipment (net book value)	<u>19 735</u>	<u>10 509</u>
	<u>19 735</u>	<u>10 509</u>
Current assets		
Inventories	2 048	1 659
Trade receivables	1 562	1 158
Cash and cash equivalents	454	
	<u>4 064</u>	<u>2 817</u>
Total assets	<u>23 799</u>	<u>13 326</u>
Equity and Liabilities		
Equity		
Ordinary share capital (\$1)	4 000	3 000
Share premium	2 000	1 500
Retained earnings	<u>9 627</u>	<u>7 338</u>
Total equity	<u>15 627</u>	<u>11 838</u>
Non-current liabilities		
8% Debentures (2022)	<u>5 625</u>	<u>-</u>
Current liabilities		
Trade payables	1 735	796
Taxation	812	609
Bank overdraft		83
	<u>2 547</u>	<u>1 488</u>
Total liabilities	<u>8 172</u>	<u>1 488</u>
Total equity and liabilities	<u>23 799</u>	<u>13 326</u>

Other information is as follows:

1 During the year the company paid total dividends of \$150000.

2 During the year property, plant and equipment costing \$840 000 was sold. The accumulated depreciation on this property, plant and equipment was \$715000.

3 The total depreciation charge for the year was \$2050000.

REQUIRED

(c) Prepare a statement to show the net cash from operating activities for the year ended 30 June 2014. [12]

(d) Prepare a statement of cash flows for the year ended 30 June 2014 in accordance with IAS 7.[16]

Nov 2014

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Q # 6 The directors of Hank Limited provide the following statements of financial position at 31 March:

	2016 \$000	2015 \$000
Assets		
Non-current assets (net book value)	<u>259</u>	<u>224</u>
Current assets		
Inventories	128	102
Trade receivables	132	118
Cash and cash equivalents	<u>—</u>	<u>14</u>
	<u>260</u>	<u>234</u>
Total assets	<u>519</u>	<u>458</u>
Equity and Liabilities		
Equity		
Share capital	210	180
Share premium	15	—
Retained earnings	<u>107</u>	<u>131</u>
	<u>332</u>	<u>311</u>
Non-current liabilities		
Bank loan (repayable 2020)	<u>42</u>	<u>20</u>
Current liabilities		
Trade payables	102	109
Bank overdraft	23	—
Other payables – taxation	<u>20</u>	<u>18</u>
	<u>145</u>	<u>127</u>
Total equity and liabilities	<u>519</u>	<u>458</u>

Additional information

The following information relates to the year ended 31 March 2016:

- 1 The profit from operations was \$30 000.
- 2 During the year non-current assets with a cost of \$24 000 and accumulated depreciation of \$19 000 were sold for \$8 000.
- 3 The depreciation charge for the year was \$12 000. All non-current assets held at the end of the financial year are depreciated over 25 years using the straight-line method.
- 4 Interest paid for the year was \$9 000.
- 5 Dividends paid during the year were \$25 000. A dividend of \$30 000 had been proposed at the end of the year.
- 6 The taxation charge was \$20 000.

REQUIRED

- (a) Explain the difference between a statement of cash flows and a cash budget. [2]
- (b) Prepare a statement of cash flows for Hank Limited for the year ended 31 March 2016 in accordance with IAS 7. [10]
- (c) Explain with reference to the statement of cash flows whether Hank Limited has a strong or a weak cash position. [4]

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(d) Prepare a summarised schedule of non-current assets as it would appear as a note in the published accounts for the year ended 31 March 2016. [5]

(e) Advise the directors whether or not they should apply the International Accounting Standards when preparing the published accounts. Justify your answer. [4]

Nov 2016

Q # 7 R Limited does not hold any inventory.

The non-current assets schedule of R Limited for the year ended 31 December 2018 was as follows

	Equipment	Motor vehicles	Total
	\$000	\$000	\$000
Cost			
At 1 January 2018	190	220	410
Additions	80	-	80
Disposals	-	(40)	(40)
At 31 December 2018	<u>270</u>	<u>180</u>	<u>450</u>
Accumulated depreciation			
At 1 January 2018	47	96	143
Charge for the year	27	21	48
Eliminated on disposals	-	(17)	(17)
At 31 December 2018	<u>74</u>	<u>100</u>	<u>174</u>
Net book value			
At 31 December 2018	<u>196</u>	<u>80</u>	<u>276</u>
At 1 January 2018	<u>143</u>	<u>124</u>	<u>267</u>

The statement of changes in equity of R Limited for the year ended 31 December 2018 was as follows

	Ordinary share capital (\$1 shares)	Share premium	General reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2018	1000	100	25	150	1275
Issue of shares	120	24			144
Transfer			50	(50)	-
Ordinary dividend paid				(80)	(80)
Profit for the year				135	135
At 31 December 2018	1120	124	75	155	1474

The following information is also available.

1 Finance charges for the year amounted to \$16 000. All had been paid by the year-end.

2 Proceeds from the sale of the motor vehicle were \$30 000.

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3 During the year trade receivables increased by \$22 000 and trade payables decreased by \$18 000.

4 The net increase in cash and cash equivalents during the year was three times the amount of the overdraft at the start of the year

Required

(a) Identify the type of business which keeps no inventory of goods for resale. [1]

(b) Prepare the statement of cash flows for R Limited for the year ended 31 December 2018 in accordance with IAS 7. (Ignore taxation.) [18]

(c) State why the revaluation of a non-current asset is not disclosed in a statement of cash flows. [1]
Additional information

The finance director of R Limited has produced the cash budget for the year ending 31 December 2019. This show at that date the company will again have an overdraft.

(d) Discuss the possible reasons for this. [5]

Nov 2019