

CASH FLOW STATEMENT

A further analysis of the **income statement** and the **balance sheet** is required to determine, for example, why the cash balance has changed, what has happened to the net profit or why less cash is available in spite of a large net profit. To provide relevant information for the users of financial statements, a **cash flow statement** must be drawn up. The **cash flow statement** is intended to explain the manner in which the cash resources of a company have changed.

CONTENTS OF THE CASH FLOW STATEMENT

1. OPERATING ACTIVITIES

The cash flow from operating activities is normally the most important source of cash to a company and will provide the starting point for the statement. Cash generated by operating activities, comprises separate identification of:

- cash generated from operations
- cash effects of finance costs (interest) and taxation
- cash effects of dividends paid to shareholders

Two problem areas must be pointed out!

Depreciation does not involve an outflow of cash. There is no effect on the bank account
Interest on loans is strictly speaking, not an "operating" activity. It is considered as a cost of "financing" the business.

2. INVESTING ACTIVITIES

Investing activities entail the buying and selling of tangible assets. The outflow of cash includes items such as the purchasing of tangible assets, whilst the inflow of cash items includes items such as the proceeds from the sale of non-current assets.

3. FINANCING ACTIVITIES

The following items are normally included in the financing activities section:

- proceeds from loans
- repayment of a loan
- proceeds from shares issued to shareholders (includes shares issued at a premium)

CASH FLOW STATEMENT: STEP BY STEP

1. Know the format.
2. Analyse the movements, item by item, that occurred in the balance sheet as set out at the beginning and end of the relevant period.

A MOVEMENT CAUSED BY A DEBIT ENTRY = **A CASH OUTFLOW**
(amount) in brackets = outflow

e.g.

Inventories	
Bank	(xxx)
in brackets = outflow	

A MOVEMENT CAUSED BY A CREDIT ENTRY = **A CASH INFLOW**
amount without brackets = inflow

e.g.

Debtors	
Bank	xxx
without brackets = inflow	

3. Start with the notes to the cash flow statement.

NOTE 1

Reconciliation between profit before taxation and cash generated from operations				R
Profit before taxation				XX
Adjustments in respect of:				
Depreciation				XX
Interest paid (finance costs)				XX
Income from investments				(XX)
Operating profit before changes in working capital:				XX
Inventories	increase / decrease	increase = (xx)	decrease = no brackets	e.g. (XX)
Debtors	increase / decrease	increase = (xx)	decrease = no brackets	e.g. (XX)
Creditors	increase / decrease	decrease = (xx)	increase = no brackets	e.g. X
Cash generated from operations				XXX

NOTE 2

	Net change	Current	Previous
Cash and cash equivalents:	R	R	R
Bank	XX	XXX	XX
Cash float	-	X	XX
Petty cash	-	X	XX
	XX	*	XXX

The following two notes are not required, but are shown so that marks can be awarded for calculations:

NOTE 3

Dividends paid	R
Amount in financial statements	(xx)
Balance on last day of previous year	(xx)
Balance on last day of current year	xx
Amount paid	(xxx)

NOTE 4

Taxation paid	R
Amount in income statement	(xx)
Balance owing at last date of previous year	(xx)
Balance owing at closing date of current year	xx
Amount paid	(xxx)

4. Draw up the cash flow statement.

FORMAT

XYZ LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED		
.....		
	Notes	R
Cash flow from operating activities		xxx
Cash generated from operations	(1)	xxx
Interest paid (finance cost)		(xx)
Interest income		xx
Interest paid (finance cost)		(xx)
Dividends paid	(3)	(xx)
Taxation paid	(4)	(xx)
Cash flow from investing activities		(xx)
Purchase of non-current assets		(xx)
Proceeds from disposal of non-current assets		xx
Cash flow from financing activities		xxx
Proceeds from shares issued (including premium)		xxx
Proceeds from non-current liabilities		xxx
Payment of non-current liabilities		(xx)
Net change in cash and cash equivalents		(xx)
Cash and cash equivalents: beginning of period / year	(2)	xxx
Cash and cash equivalents: end of period / year	(2)	xxx

ACTIVITY 4

The given information for the accounting period 1 March 2011 to 28 February 2012, with comparative figures for the previous period where applicable, were taken from the books of Phat Joe Ltd.

INSTRUCTION

- 4.1 Show the "**Cash flows from operating activities**" as it should appear on the cash flow statement on 28 February 2012. Show the relevant notes and calculations.
- 4.2 The activities of a company may be classified into three broad categories when drawing up the cash flow statement. Name the three activities.
- 4.3 Calculate the net changes in cash and cash equivalents.

Extract from the Income statement for the year ended 28 February 2012	
	R
Sales (net)	1 071 000
Depreciation: Equipment	20 000
Interest expense	29 200
Net profit before tax	306 000
Taxation	137 500
Interest on investments	12 000

Extract from the Balance sheet on 28 February 2012			
	Note	2012	2011
ASSETS		R	R
Tangible assets: Land and buildings		790 700	660 700
Equipment at carrying value		130 800	126 800
Trade and other receivables	(1)	170 000	120 000
Inventories		167 500	170 000
Cash and cash equivalents		30 000	6 000
EQUITY AND LIABILITIES			
Equity capital		750 000	550 000
Accumulated profit		120 000	81 500
Non-current liabilities		174 000	213 000
Trade and other payables	(2)	245 000	239 000

Extract from the Notes to the financial statements			
		2012	2011
		R	R
1. Trade and other receivables			
Net trade debtors		148 000	113 000
Prepaid expenses		13 000	7 000
SARS (income tax)		9 000	0
		170 000	120 000
3. Accumulated profit		2012	2011
Accumulated profit as disclosed on balance sheet includes:			
Ordinary share dividends (paid and recommended)		130 000	-
2. Trade and other payables		2012	2011
Trade creditors		158 000	185 000
Accrued expenses		12 000	10 000
SARS (income tax)		0	11 000
Shareholders for dividends		75 000	33 000
		245 000	239 000

ACTIVITY 4

ANSWER SHEET

4.1 Extract from

PHAT JOE LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2012		
	Notes	R
Cash flow from operating activities		
Cash generated from operations	(1)	
Interest paid		
Interest income		
Dividends paid	(3)	
Taxation paid	(4)	

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated from operations		
		R
Profit before taxation		
Adjustments in respect of:		
Depreciation		
Interest on investments		
Interest paid (finance cost)		
Operating profit before changes in working capital		
Inventories	increase / decrease	
Receivables	increase / decrease	
Payables	increase / decrease	
Cash generated from operations		

3.	Dividends paid	R
	Amount in financial statements	
	Balance owing at 28 February 2011	
	Balance owing at 28 February 2012	
	Amount paid	

Calculation: T-account

Shareholders for dividends			
Bank (amount paid during year)		Balance	
Balance	c/d	Dividends (interim and final)	
		Balance	b/d

4.	Taxation paid	R
	Income statement amount	
	Balance owing at 28 February 2011	
	Balance owing at 28 February 2012	
	Amount paid	

Calculation: T-account

SARS (income tax)			
Bank (amount paid during year)		Balance (beginning of year)	
		Income tax (income statement amount)	
		Balance (end of year)	
Balance	b/d		

4.2	(1)
	(2)
	(3)

4.3 Net change in cash and cash equivalents

	Net change	2012	2011
	R	R	R
Bank			

ACTIVITY 5

INSTRUCTION

- 5.1 Show the "**Cash flow from investing activities**" as it should appear on the cash flow statement of Hip Hop Ltd on 30 June 2013.
- 5.2 Explain briefly why it is important to include a cash flow statement in the company's annual report.

HIP HOP LTD			
Extract from:	BALANCE SHEET ON 30 JUNE 2013		
	Notes	2013	2012
ASSETS	R	R	R
Non-current assets			
Tangible assets	1	445 000	300 000

Extract from: **NOTES TO THE FINANCIAL STATEMENTS**

3. TANGIBLE ASSETS	Land and	Vehicles	Equipment	Total
	buildings			
	R	R	R	R
Cost price	250 000	36 000	24 000	310 000
Accumulated depreciation	-	(6 000)	(4 000)	(10 000)
Carrying value (31 October 20.0)	250 000	30 000	20 000	300 000
Movements				
Additions at cost	125 000	13 500	17 550	156 050
Disposals at carrying value	-	-	(3 000)	(3 000)
Depreciation for the year	-	(3 500)	(4 550)	(8 050)
Carrying value (31 October 20.1)	375 000	40 000	30 000	445 000
Cost price	375 000	49 500	36 550	461 050
Accumulated depreciation	-	(9 500)	(6 550)	(16 050)

Additional information

During the year, old equipment with a cost price of R5 000 was sold for cash at carrying value.

ACTIVITY 5

ANSWER SHEET

5.1 Extract from

HIP HOP LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013		
	Notes	R
Cash flow from investing activities		
Purchase of non-current assets	Cal (1)	
Proceeds from sale of non-current assets	Cal (1)	

Note 5	Non-current assets	R
	Land and buildings	
	Vehicles	
	Equipment	

Calculations: The following notes are shown so that marks can be awarded for calculations:

(1)

Land and buildings			
Balance (beginning of year)			
Bank (purchases)	*		Balance (end of financial year) c/d
Balance		b/d	

***balancing
amount**

(2)

Vehicles			
Balance (beginning of year)			
Bank (purchases)	*		Balance (end of financial year) c/d
Balance		b/d	

***balancing
amount**

(3)

Equipment			
Balance (beginning of year)		Asset disposal (CP)	
Bank (purchases)	*		Balance (end of financial year) c/d
Balance		b/d	

***balancing
amount**

Accumulated depreciation on equipment			
Asset disposal		Balance (beginning of year)	
Balance (end of financial year)		Depreciation	*
		Balance	b/d

***balancing**

amount

(4)

Asset disposal			
Equipment (CP)		Acc dep on equipment *	
		Bank (sold at carrying value)	

*balancing
amount

5.2 Purpose of a cash flow statement

Sunray Limited was registered with a share capital of 500 000 ordinary shares of R2 each.

The board of directors issued a total of 300 000 shares when starting business operations.

The accounting period ends on the last day of August each year.

INSTRUCTION

- 6.1 Prepare the "**Cash flows from financing activities**" on the cash flow statement for the year ended 31 August 2013.
- 6.2 How would you classify the following transactions when preparing the cash flow statement? As a operating activity, an investing activity or a financing activity?
- 6.2.1 Issue of new shares.
 - 6.2.2 Cheques received from debtors.
 - 6.2.3 Purchase of non-current assets (e.g.) Vehicles.

INFORMATION

1. The dividends for the financial year were as follows:

Dividend declared and paid on 16 February 2013 on all shares issued

up to date:	Interim dividend:	R18 000	(6 cents per share)
--------------------	-------------------	---------	---------------------

Dividend declared on 31 August 2013 on all shares issued up to

date:	Final dividend:	R52 000	(13 cents per share)
--------------	-----------------	---------	----------------------

2. On 5 March 2013 the company offered additional shares to the public at R2,75 per share. All the shares were applied for and the money was received on 15 April 2013
3. The mortgage bond was R60 000 at the end of the accounting period. R20 000 was repaid half-way through the year. The interest rate is 20% pa.

ACTIVITY 6

ANSWER SHEET

6.1 Extract from

SUNRAY LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2013		
	Notes	R
Cash flow from financing activities		
Proceeds from shares issued (including premium)	Cal (1)	
Payment of non-current liability	Cal (2)	

Calculations: **The following notes are shown so that marks can be awarded for calculations:**

(1) Proceeds from issue of share capital

Final dividend on 31 August 2013	= R52 000 (13 cents per share)		
Calculate issued shares on 31 August 2013:		<u>final dividend</u>	x <u>100</u>
		13 c	1
		= issued shares	

Shares issued at par: R2 per share

Ordinary share capital			
		Balance	
Balance		Bank	
		Balance	

Shares issued at premium: 75 c per share

Share premium			
		Balance	-
Balance		Bank	
		Balance	

(2) Payment of non-current liability

Mortgage bond			
Bank (repayment)		Balance	b/d
Balance (end of year)			
		Balance	b/d

6.2

6.2.1

6.2.2

6.2.3

ACTIVITY 7

The information given hereafter was extracted from the financial statements of Nahoon Limited on 28 February 2013, the end of the financial year.

INSTRUCTION

- 7.1 Prepare the cash flow statement of Nahoon Ltd for the year ended 28 February 2013, together with the relevant notes.
- 7.2 What dividend per share was declared for 2013?

INFORMATION

Extract from

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013		R
Sales		600 000
Operating income for the year		218 000
Operating expenses:	Depreciation: Equipment	?
	Depreciation: Vehicles	?
	Interest on loan	9 000
	Director's remuneration	24 000
	Auditor's remuneration	12 000
Income tax		80 000

Extract from

BALANCE SHEET ON 28 FEBRUARY 2013	2013	2012
	R	R
ASSETS		
Tangible assets	362 000	345 000
Inventories	40 000	54 000
Receivables (Debtors)	65 000	40 000
Cash and cash equivalents: Bank	11 000	-
Total assets	478 000	439 000
EQUITY AND LIABILITIES		
Ordinary shares of R2 each	300 000	280 000
Share premium	30 000	-
Accumulated profit	72 000	32 000
Non-current liabilities: Loan	18 000	63 000
Payables (Creditors)	58 000	52 000
Bank overdraft	-	12 000
Total equity and liabilities	478 000	439 000

Additional information to the balance sheet

- The authorised share capital of the company is 200 000 ordinary shares of R2 each.
- Tangible assets consists of:

	2013	2012
	R	R
Land and building at cost	300 000	275 000
Vehicles: Cost price	50 000	70 000
Accumulated depreciation	18 000	26 000
Equipment: Cost price	40 000	30 000
Accumulated depreciation	10 000	4 000

Vehicles (with a cost price of R20 000 and accumulated depreciation of R15 000) was sold for its carrying amount during the year.

New equipment was purchased during the year.

- No interim dividend was declared and paid during the financial year.
- Payables (creditors) includes an amount owing to the shareholders for dividends,

(20.3) R40 000 and (20.2) R30 000.

5. No income tax was due in respect of the previous and current financial year.

ACTIVITY 7**ANSWER
SHEET****7.1**

NAHOON LIMITED		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2013		
	Notes	R
Cash flow from operating activities		
Cash generated from operations	1	
Finance cost (interest expense)		
Dividends paid	3	
Taxation paid	4	
Cash flow from investing activities		
Purchase of non-current assets	5	
Proceeds from disposal of non-current assets		
Cash flow from financing activities		
Proceeds from shares issued		
Payment of non-current liability		
Net change in cash and cash equivalents		
Cash and cash equivalents: beginning of year	2	
Cash and cash equivalents: end of year	2	

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated from operations		
		R
Profit before taxation	(see calculation)	
Adjustments in respect of:	Depreciation	
	Finance cost (interest expense)	
Operating profit before changes in working capital		
Inventories increase / decrease		
Receivables increase / decrease		
Payables increase / decrease		
Cash generated from operations		

To calculate profit before taxation:

Appropriation				
account				
Tax		Net profit		balancing amount
Dividends		Acc profit		
Acc profit		(beginning)		
(end)				

2. Cash and cash equivalents	Net changes	2013	2012
	R	R	R
Bank			
Cash float			
Petty cash			

Calculations shown

3. Dividends paid	R
Amount in financial statements	
Balance owing: 28 February 20.2	
Balance owing: 28 February 20.3	
Amount paid	

OR

Shareholders for dividends			
Bank		Balance	b/d
Balance	c/d	Dividends	
		Balance	b/d

4. Taxation paid	R
Amount in income statement	
Balance owing: 28 February 20.2	-
Balance owing: 28 February 20.3	-
Amount paid	

OR

SARS (income tax)			
Bank		Balance	b/d -
Balance	c/d -	Income tax	
		Balance	b/d -

5. Non-current assets purchased	R
Land and buildings	
Equipment	

Calculations of tangible assets

Land and buildings			
Balance			
Bank		Balance	
Balance			

Equipment			
Balance			
Bank		Balance	
Balance			

Vehicles			
Balance		A disposal	
		Balance	
		Balance	
Balance			

Acc dep on equipment			
		Balance	
Balance		Depreciation	
Balance		Depreciation	
		Balance	

Acc dep on vehicles			
A disposal		Balance	
Balance		Depreciation	
		Balance	

Asset disposal			
Vehicles		Acc dep	
		Bank (SP)	

6.

Ordinary share capital			
		Balance	
Balance		Bank	
		Balance	

Share premium			
		Balance	-
Balance		Bank	
		Balance	

7.2 Dividend per share declared

<u>Interim + final dividend</u>	<u>x 100 cents</u>	
Number of shares issued	1	

ACTIVITY 4

SOLUTION

4.1 Extract from:

PHAT JOE LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.8		
	Notes	R
Cash flow from operating activities		17 000
Cash generated from operations	(1)	279 700
Interest on investments		12 000
Interest paid		(29 200)
Dividend paid	(3)	(88 000)
Taxation paid	(4)	(157 500)

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated from operations			
			R
Profit before taxation			306 000
Adjustments in respect of:			
Depreciation			20 000
Interest expense (finance cost)			29 200
Interest on investments			(12 000)
Operating profit before changes in working capital			343 200
Inventories	increase / decrease	(R170 000 - R167 500)	2 500
Receivables	increase / decrease	(R161 000 - R120 000)	(41 000)
Payables	increase / decrease	(R195 000 - R170 000)	(25 000)
Cash generated from operations			279 700

(3) Dividends paid		R
Amount in financial statements		(130 000)
Balance owing at 28 February 20.7		(33 000)
Balance owing at 28 February 20.8		75 000
Amount paid		(88 000)

OR

Alternative method: T-account

Shareholders for dividends			
Bank (amount paid during year)	88 000	Balance (beginning of	33 000

		year)	
Balance (end of year)	75 000	Dividends (interim and final)	130 000
		163 000	163 000
		Balance (end of year b/d)	75 000

Remember!!!

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

(4)

Taxation paid		R
Amount in income statement		(137 500)
Balance owing at 28 February 20.7)	(credit balance)	(11 000)
Balance owing at 28 February 20.8)	(debit balance)	9 000
Amount paid		(157 500)

OR

Alternative method: T-account

SARS (Income Tax)			
Bank (amount paid during year)	157 500	Balance (owing beginning of year)	11 000
		Income Tax (Income Statement amount)	137 500
		Balance (end of year)	9 000
		157 500	157 500
Balance (receivable end of year)	9 000		

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

4.2

(1)	Operating activities
(2)	Investing activities
(3)	Financing activities

4.3 Net change in cash and cash equivalents

		Net change	2012	2011
		R	R	R
Bank	(net change = increase)	24 000	30 000	6 000

ACTIVITY 5

SOLUTION

5.1 Extract from:

HIP HOP LTD			
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013			
	Notes	R	
Cash flow from investing activities	*		(153 050)
Purchase of non-current assets	(1)		(156 050)
Proceeds from sale of non-current assets	(2)	3 000	

* **Outflow:** $R125\ 000 + R13\ 500 + R17\ 550 = (R156\ 050)$

Inflow: $= 3\ 000$

Net outflow = (R153 050)

Note 5	Non-current assets	R
	Land and buildings	(125 000)
	Vehicles	(13 500)
	Equipment	(17 550)
		<u>(156 050)</u>

Calculations: *The following notes are not required, but are shown so that marks can be awarded for calculations:*

(1)

Land and buildings			
Balance (beginning of year)	250 000		
Bank (purchases)	* 125 000	Balance (end of financial year) c/d	375 000
	375 000		375 000
Balance	b/d 375 000		
*balancing amount			

Remember!!!

A movement caused by a debit entry = a cash outflow (amount) in brackets = outflow

(2)

Vehicles			
Balance (beginning of year)	36 000		
Bank (purchases)	* 13 500	Balance (end of financial year) c/d	49 500

	49 500		49 500
Balance	b/d	49 500	
*balancing amount			

Remember!!!

A movement caused by a debit entry = a cash outflow (amount) in brackets = outflow

(3)

Equipment			
Balance (beginning of year)	24 000	Asset disposal (CP)	5 000
Bank (purchases)	* 17 550	Balance (end of financial year) c/d	36 550
	41 550		41 550
Balance	b/d	36 550	
*balancing amount			

(amount given)

Remember!!!

A movement caused by a debit entry = a cash outflow (amount) in brackets = outflow

Accumulated depreciation on equipment			
Asset disposal	*2 000	Balance (beginning of year)	4 000
Balance (end of financial year)	6 550	Depreciation	4 550
	8 550		8 550
		Balance	b/d 6 550

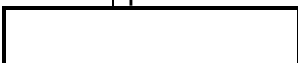
***balancing amount**

(4)

Asset disposal			
Equipment (CP)	5 000	Acc dep on equipment	2 000
		Bank (sold at carrying value)	* 3 000
	5 000		5 000
		*balancing amount	

5.2 Purpose of a cash flow statement:

The purpose of a cash flow statement is to supply the users of financial statements with information on the source and application of all financial sources during an accounting period.



ACTIVITY 6

SOLUTION

6.1 Extract from:

SUNRAY LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 2013		
	Notes	R
Cash flow from financing activities		255 000
Proceeds from shares issued (including premium)	Cal (1)	275 000
Payment of non-current liability	Cal (2)	(20 000)

Calculations: *The following notes are not required, but are shown so that marks can be awarded for calculations:*

(1) Proceeds from shares issued

Final dividend on 31 August 20.9	= R52 000 (13 cents per share)		
Calculate issued shares on 31 August 20.9:		<u>final dividend</u>	x <u>100</u>
		13 c	1
		= issued shares	
	<u>R52 000</u>	x	<u>100</u>
	13c	1	= 400 000 shares
Shares issued: 400 000 - 300 000 = 100 000 shares			

Shares issued at par: R2 per share

Ordinary share capital			
		Balance	*600 000
Balance	800 000	Bank	**200 000
	800 000		800 000
		Balance	***800 000

Shares issued at premium: 75 c per share

Share premium			
		Balance	-
Balance	75 000	Bank	*75 000
	75 000		75 000
		Balance	**75 000

* 300 000 shares x R2 = R600 000

* 100 000 shares x 75c = R75 000

** 100 000 shares x R2 = R200 000

** 100 000 shares x 75c = R75 000

*** 400 000 shares x R2 = R800 000

A movement caused by a credit entry = cash inflow (amount without brackets)

Proceeds: R200 000 + R75 000 = R275 000

(2) Payment of non-current liability

Mortgage bond				
Bank (repayment)	20 000	Balance	b/d/	80 000
Balance (end of year)	60 000			
	80 000			80 000
		Balance	b/d	60 000

A movement caused by a debit entry = a cash outflow (amount) in brackets = outflow

6.2 6.2.1

Financing activities	(inflow)

6.2.2

Operating activities	(inflow)

6.2.3

Investing activities	(outflow)

ACTIVITY 7

SOLUTION

7.1

NAHOON LIMITED		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.3		
	Notes	R
Cash flows from operating activities		48 000
Cash generated from operations	1	167 000
Finance cost		(9 000)
Dividends paid	(3)	(30 000)
Taxation paid	(4)	(80 000)
Cash flow from investing activities		(30 000)
Purchase of non-current assets		(35 000)
Proceeds from disposal of non-current assets		5 000
Cash flow from financing activities		5 000
Proceeds from shares issued (R20 000 + R30 000)		50 000
Payment of non-current liability (R63 000 - R18 000)		(45 000)
Net change in cash and cash equivalents		23 000
Cash and cash equivalents: beginning of year	2	(12 000)
Cash and cash equivalents: end of year	2	11 000

	R
* Operating activities	48 000
Investing activities	(30 000)
Financing activities	5 000
Net change in cash	23 000

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated from operations			R
Profit before taxation			160 000
Adjustments in respect of:	Depreciation	(Eq R6 000 + Veh R7 000)	13 000
	Interest expense (finance cost)		9 000
Operating profit before changes in working capital			182 000
Inventories	increase / decrease	(([20.2] R54 000 - [20.3] R40 000)	14 000
Receivables	increase / decrease	(([20.3] R65 000 - [20.2] R40 000)	(25 000)
Payables	increase / decrease	(([20.2] R22 000 - [20.3] R18 000)	(4 000)
<i>Payables:</i> [20.2] R52 000 - R30 000 = R22 000			
			[20.3] R58 000 - R40 000 = R18 000
Cash generated from operations			167 000

To calculate profit before taxation:

Appropriation				balancing amount
account				
Tax	80 000	Net profit	160 000	
Dividends	40 000	Acc profit	32 000	
Acc profit	72 000	(beginning)		
(end)	192 000		192 000	

2. Cash and cash equivalents	Net changes	20.3	20.2
Bank	23 000	11 000	(12 000)

3. Dividends paid	R
Amount in financial statements	40 000
Balance owing: 28 February 20.2	30 000
Balance owing: 28 February 20.3	(40 000)
Amount paid	30 000

OR

Shareholders for dividends			
Bank	(30 000)	Balance	b/d 30 000
Balance	c/d 40 000	Dividends	40 000
	70 000		70 000
		Balance	b/d 40 000

4. Taxation paid	R
Amount in income statement	(80 000)
Balance owing: 28 February 20.2	-
Balance owing: 28 February 20.3	-
Amount paid	(80 000)

OR

SARS (income tax)			
Bank	80 000	Balance	b/d -
Balance	c/d -	Income tax	80 000
	80 000		80 000
		Balance	b/d -

(5) Non-current assets purchased	R
Land and buildings	(25 000)
Equipment	(10 000)
	(35 000)

Calculations

Land and buildings			
Balance	275 000		
Bank	25 000	Balance	300 000
	300 000		300 000
Balance	300 000		

Equipment			
Balance	30 000		
Bank	10 000	Balance	40 000
	40 000		40 000
Balance	40 000		

Acc dep on equipment			
		Balance	4 000
Balance	10 000	Depreciation	6 000
	10 000		10 000

		Balance	10 000
--	--	---------	--------

Vehicles			
Balance	70 000	A disposal	20 000
		Balance	50 000
	70 000		70 000
Balance	50 000		

Acc dep on vehicles			
A disposal	15 000	Balance	26 000
Balance	18 000	Depreciation	7 000
	33 000		33 000
		Balance	18 000

Asset disposal			
Vehicles	20 000	Acc dep	15 000
		Bank (SP)	5 000
	20 000		20 000

(proceeds of sale of vehicles)

Calculations

Ordinary share capital			
		Balance	280 000
Balance	300 000	Bank	20 000
	300 000		300 000
		Balance	300 000

Share premium			
		Balance	-
Balance	30 000	Bank	30 000
	30 000		30 000
		Balance	30 000

7.2 Dividend per share declared

<u>Interim + final dividend</u>	x	<u>100 cents</u>
Number of shares issued		1
<u>R 40 000</u>	x	<u>100 cents</u>
150 000		1
= 26,67 cents		