

SESSION 6: CASH FLOW STATEMENT

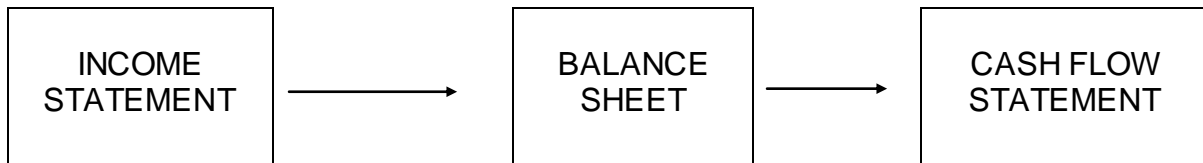
KEY CONCEPTS:

In this session we will look at:

- Companies Financial Statements
- Cash Flow Statements

X-PLANATION

Companies Financial Statements:



Cash Flow Statement:

The cash flow statement reflects the movement of cash within an enterprise during a specific period. The Companies Act stipulates that a cash flow statement must be part of the company's financial statements

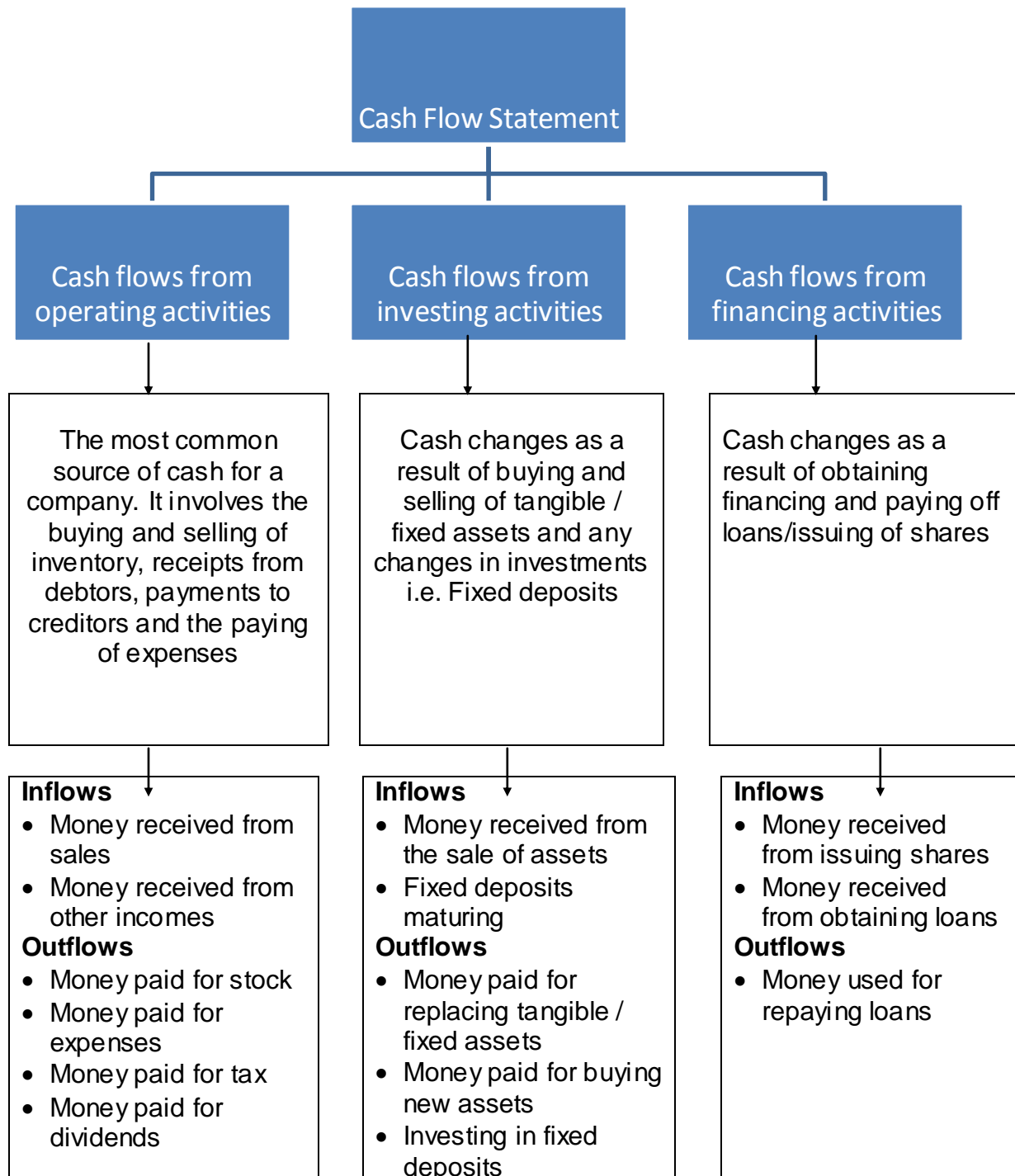
The purpose of doing the cash flow statement is to:

- Determine the cash inflows for the financial period and their sources
- Determine the cash outflows for the financial period and what it was spent on
- Determine the net effect of the changes in cash
- Prepare it as part of the published financial statements of a public company
- Help assess the liquidity of the company
- How were capital developments projects financed?
- Does the company generate sufficient cash from its operations to maintain its current operating capacity

Some users of the Cash Flow Statement:

- Management
- Directors
- Banks
- Investors

Format of the Cash Flow Statement (Components):



X-AMPLE QUESTIONS:

Question 1:

Use the Income Statement and the Balance Sheets provided to complete the Cash Flow.

Statement of Orpen Ltd for 29th February 2012

INFORMATION:

**Orpen Ltd
Income Statement for the year ended 29th February 2012**

Turnover		345 000
Cost of sales		(197 000)
Gross profit		148 000
Operating expenses		(108 900)
Directors fee		14 000
Salaries and wages		39 100
Audit fee		2 000
Depreciation		9 800
Sundry expenses		44 000
Profit before interest expense		39 100
Interest expense		(1 600)
Profit before tax		37 500
Taxation		(10 540)
Net profit after tax		26 960

Balance Sheet of Orpen Ltd as at 29th February 2012

	Notes	20.9.	20.8.
Assets			
Non current assets		196 000	105 000
Tangible assets	3	196 000	105 000
Current assets		53 220	56 750
Inventory	4	36 340	45 010
Trade and other receivables	5	16 580	11 540
Cash and cash equivalents	6	300	200
Total assets		249 220	161 750
Equity and liabilities			
Capital and reserves		188 730	109 790
Ordinary share capital	7	150 000	100 000
Share premium	8	15 000	8 000
Retained income	9	23 730	1 790
Non current liabilities		5 000	10 000
Mortgage loan		5 000	10 000
Current liabilities		55 490	41 960
Trade and other payables		28 950	20 560
Bank overdraft		21 540	11 400
Shareholders for dividend		5 000	10 000
Total equity and liabilities		249 220	161 750

ADDITIONAL INFORMATION:

- Included in trade and other payables is R4 300 in respect of SARS: Income tax outstanding at the beginning of the year and R2 130 outstanding at the end of the year.
- The dividend on ordinary share account reflected a total of R10 000. Thereafter the directors declared a final dividend at the year end.

- Land and buildings were purchased during the year. No other fixed assets were purchased or sold.

Answer Booklet:

Name of company _____

CASH FLOW STATEMENT FOR THE YEAR ENDED _____

	Notes	R
Cash flow from operating activities		
Cash generated from operations	1	
Interest paid		
Dividends paid	3	
Income tax paid	4	
Cash flow from investing activities		
Purchase of fixed assets	5	
Proceeds from sale of fixed assets		

Cash flow from financing activities		
Proceeds from shares issued		
Proceeds from long term loans		
Payment of long term loans		
Net change in cash and cash equivalents	2	
Cash and cash equivalents at beginning of the year	2	
Cash and cash equivalents at end of the year	2	

**COMPANIES
NOTES TO THE CASH FLOW STATEMENT**

1. Reconciliation between profit before taxation and cash generated		
From operations		
Profit before taxation		
Adjustments i.r.o.		
Depreciation		
Interest paid		
Operating profit before changes in working capital		

(Increase) / Decrease in inventory		
(Increase) / Decrease in debtors		
Increase / (Decrease) in creditors		
Cash generated from operations		

2. Cash and cash equivalents	Net change	20.9	20.8
Bank *			
Cash float			
Petty cash			

- If bank is in overdraft or to show a decrease use brackets.

3. Dividends paid	
Amount in financial statements	
Balance on the last day of previous year	
Balance on the last day of the current year	

Ledger account is acceptable

4. Taxation paid	
Amount in income statement	
Balance on the last day of the previous year	
Balance on the last day of the current year	

Ledger account is acceptable.

5. Tangible assets purchased / Fixed assets purchased /	
Property, plant and equipment purchased	
Land and buildings	
Equipment	
Vehicles	

SOLUTIONS TO X-AMPLE QUESTIONS

Question 1:

**COMPANIES
CASH FLOW STATEMENTS**

Name of company: Orpen Ltd

CASH FLOW STATEMENT FOR THE YEAR ENDED 28th February 20.9

	Notes	R
Cash flow from operating activities		
		28 960
Cash generated from operations	1	63 000
Interest paid		(1 600)
Dividends paid	3	(20 000)
Income tax paid	4	(12 530)
Cash flow from investing activities		(91 000)
Purchase of fixed assets	5	(91 000)
Proceeds from sale of fixed assets		
Cash flow from financing activities		52 000
Proceeds from shares issued (50 000 + 7 000)		57 000
Proceeds from long term loans		
Payment of long term loans		(5 000)

Net change in cash and cash equivalents	2	(10 040)
Cash and cash equivalents at beginning of the year	2	(11 200)
Cash and cash equivalents at end of the year	2	(21 240)

COMPANIES
NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated		
From operations		
Profit before taxation		37 500
Adjustments i.r.o.		11 400
Depreciation		9 800
Interest paid		1 600
Operating profit before changes in working capital		48 900
Changes in working capital		14 190
Decrease in inventory		8 670
(Increase) in debtors		(5 040)
Increase in creditors		10 560
Cash generated from operations		63 090

2. Cash and cash equivalents	Net change	20.9	20.8
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Bank *	(10 140)	(21 540)	(11 400)
Cash float	100	300	200
Petty cash			
	(10 040)	(21 240)	(11 200)

- If bank is in overdraft or to show a decrease use brackets.

3. Dividends paid	
Amount in financial statements	(15 000)
Balance on the last day of previous year	(10 000)
Balance on the last day of the current year	5 000
	(20 000)

Ledger account is acceptable

4. Taxation paid	
Amount in income statement	(10 540)
Balance on the last day of the previous year	(4 300)
Balance on the last day of the current year	2 310
	(12 530)

Ledger account is acceptable.

5. Tangible assets purchased / Fixed assets purchased / Property, plant and equipment purchased	
Land and buildings	(91 000)
Equipment	
Vehicles	
	(91 000)