

LKAS 07 : Cash Flows Statement - Revision

AAT Level III Financial Reporting (FAR)

Sandeepa Jayasekera

ACA, B.Sc. (Accounting) Sp. Hons., ACMA (SL), SAT, CIMA Passed Finalist,
Reading for MBA (PIM), CA and CIMA Prize Winner



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AAT Level III Financial Reporting



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B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner, Reading for MBA (PIM-SJP).

LKAS 07 Cash Flow Statement

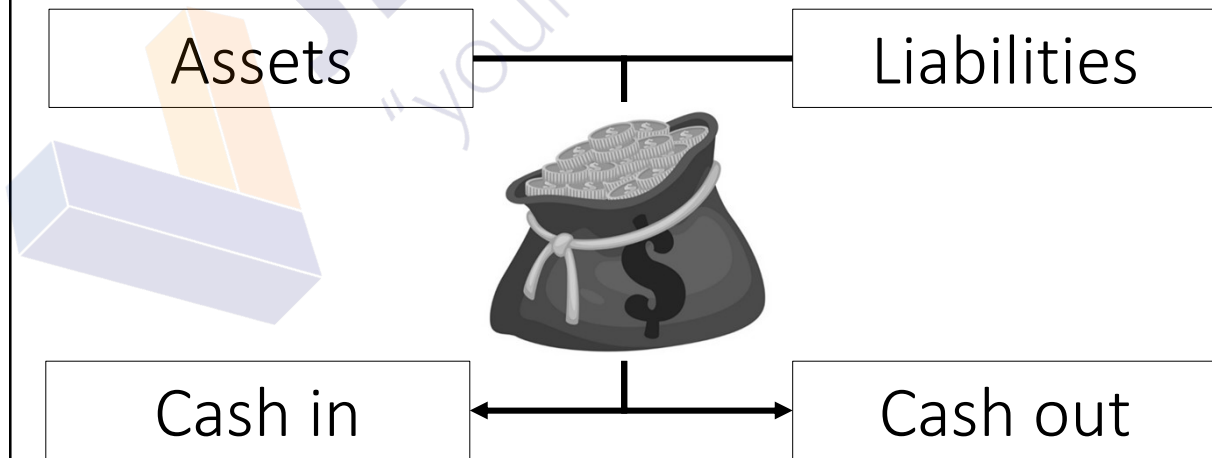
Cash

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A business actually exists due to Cash



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A Statement of Cash Flows is prepared

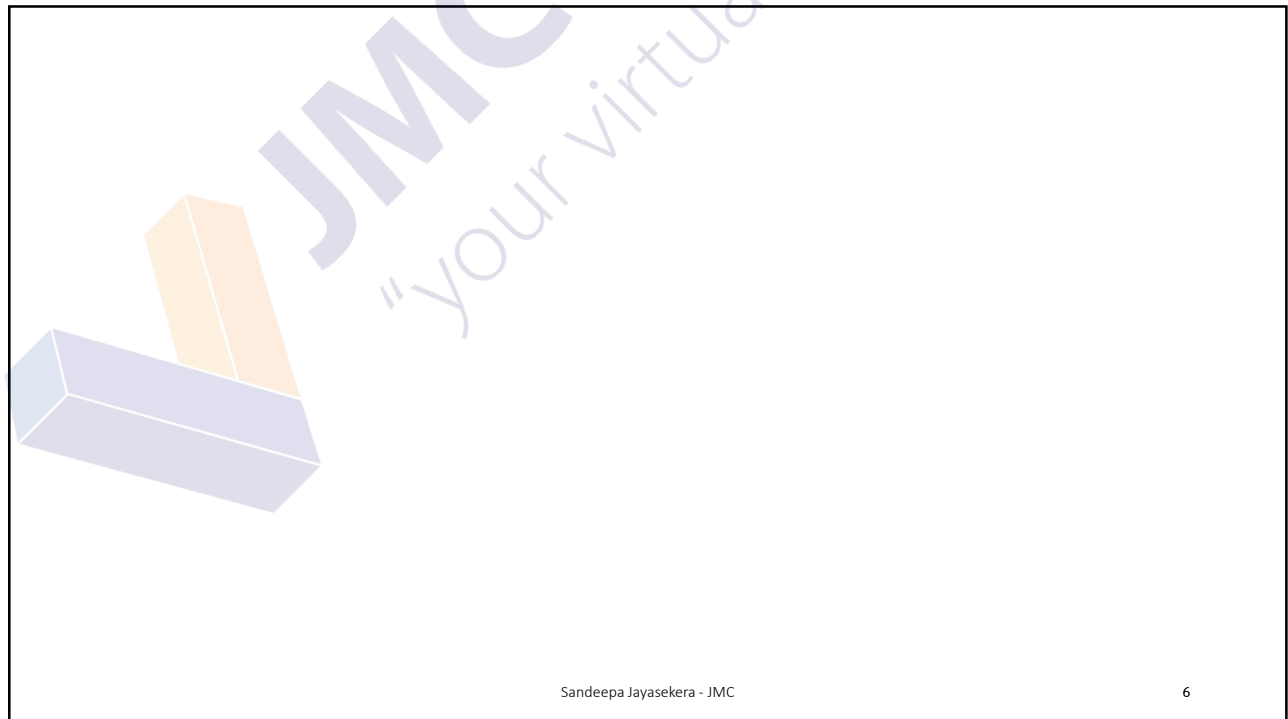
for Decision Makers

to know about the ways Cash was brought in and taken out!

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Statement of Cash Flows

Statement that presents

Cash Flows generated from activities categorized into

Operating

Investing

Financing

during the period under consideration

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Cash

Cash in Hand

Cash at Bank
(Current Accounts)

Cash Equivalents

- Short term (3 months or less than 3)
- Highly Liquid
- Investments

Treasury Bills with a maturity period of up to 03 months

Fixed Deposits with a maturity period of up to 03 months

Savings Accounts

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Operating Activities



Cash Flows related to the principal revenue generating activities of the entity

Cash Sales

Cash Purchases

Receipts from Debtors

Payments to Creditors

Payments to Employees

Utility Bill Payments

Tax Payments

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Investing Activities

Disposal proceeds from sale of Property, Plant and Equipment

Purchase of Property, Plant and Equipment

Sale of Investments

Investments in Shares

Dividend Income

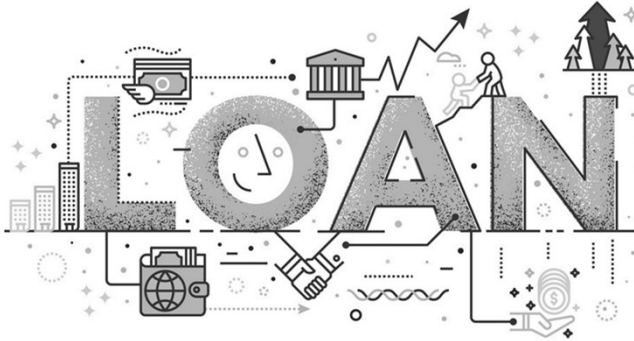
Purchase of Intangible Assets



Cash Flows related to acquisition and disposal of non-current assets

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Financing Activities



Ordinary Share Issue

Dividend Payments

Preference Share Issue

Loans Repaid

Loans Obtained

Rights Issue

Cash Flows related to financing of Equity and Debt Capital

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Question 01

Match the following items in the Statement of Financial Position to the Activities in the Statement of Cash Flows

Non-current Assets

Property, Plant and Equipment

Intangible Assets

Investment in Subsidiaries

Other Financial Assets

Current Assets

Inventory

Trade Receivables

Cash and Cash Equivalents

Operating

Investing

Financing

Equity

Stated Capital

Retained Earnings

Non-current Liabilities

Interest bearing Borrowings

Preference Shares

Current Liabilities

Trade Payables

Accrued Expenses

Current portion of

Interest bearing Borrowings

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To which activity do you classify Interest Paid?

Usually Financing Activities



If a loan is obtained for main business activities



Operating Activities

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To which activity do you classify Tax Payments?

If on the profit of main business activities



Operating

If on Investing Activities



Investing



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Foreign Currency Cash Flows

Changes arising from applying the exchange rate as at the reporting date to foreign assets and liabilities are not cash flows.



Changes that arise by settling a transaction using foreign currency are cash flows.

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Methods of Preparing Statement of Cash Flows

Direct Method

Indirect Method

- Gross Cash Receipts
- Gross Cash Payments separately disclosed
- The practical use of this is less
- Can be used if there are less transactions.

- If there are large volume of transactions, using direct method for operating activities is difficult
- Therefore, we convert the profit before tax into cash from operations by doing few adjustments

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Direct Method and Indirect Method

Direct Method

Indirect Method

Operating Activities

Operating Activities

Investing Activities

Financing Activities

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Importance of Statement of Cash Flows

To determine the survival, growth, and direction of the entity

To manage operations

To understand the business growth

To evaluate the ability to generate cash flows

Can use for Business Valuation

To remove accounting adjustments such as depreciation, impairment

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Direct Method

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Statement of Cash Flows (Direct Method) For the year ended 31st March 20X0

	Rs.	Rs.
Cash Flows from Operating Activities		
Cash Sales	XX	
Cash Purchases	(XX)	
Receipts from Debtors	XX	
Salary Payments	(XX)	
Payments to Creditors	(XX)	
Utility Payments	(XX)	
Taxes Paid	(XX)	
Net Cash Flows from Operating Activities		²⁰ XX

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Statement of Cash Flows (Direct Method)**For the year ended 31st March 20X0**

	Rs.	Rs.
Cash Flows from Investing Activities		
Purchase of Property, Plant and Equipment	(XX)	
Proceeds from Disposal of Property, Plant and Equipment	XX	
New Investments	(XX)	
Interest Received	XX	
Dividend Received	XX	
Net Cash Flows from Investing Activities		XX

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Statement of Cash Flows (Direct Method)**For the year ended 31st March 2021**

	Rs.	Rs.
Cash Flows from Financing Activities		
Proceeds from Issue of Shares	XX	
Proceeds from Long-term Loans	XX	
Loans Repaid	(XX)	
Dividends Paid	(XX)	
Interest Paid	(XX)	
Net Cash Flows from Financing Activities		XX

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Question 02 - 2019 January Question 04

Extract of Statement of Comprehensive Income of **Tokyo Trading Ltd.** for the year ended 31st March 2018 is as follows:

	Rs.
Sales	760,000
Cost of Sales	(643,000)
Gross Profit	117,000
Other Income - Investment Income	850
Distribution Expenses	(30,000)
Administration Expenses	(32,000)
Finance Expenses	(6,500)
Profit Before Tax	49,350

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Balances extracted from the statements of Financial Position of **Tokyo Trading Ltd.** as at 31st March 2018 and 31st March 2017 are as follows:

	As at 31 st March 2018 (Rs.)	As at 31 st March 2017 (Rs.)
Inventory	132,000	125,000
Trade Receivables	205,000	218,000
Trade Payables	142,000	135,000
Income Tax Payable	3,500	2,000

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The following additional information is also provided:

- (1) Depreciation charges for the year ended 31st March 2018 was Rs.12,500/-.
- (2) Finance expenses represent the interest paid to Debenture holders.
- (3) Income tax expenses for the year ended 31st March 2018 was Rs.8,000/-.
- (4) All the purchases and sales were made on credit basis.

Using the above information,

You are required to:

Prepare Cash Flows from operating activities of **Tokyo Trading Ltd.** for the year ended 31st March 2018 using the Direct Method. (05 marks)

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Question 03 - 2018 January Question 04

The following balances were extracted from the Statement of Comprehensive Income for the year ended 31st March 2017 and the Statements of Financial Position as at 31st March 2017 of **Lison Auto (Pvt) Ltd.:**

For the year ended	31 st March 2017 (Rs.'000)	
Profit on disposal of machinery		500
Depreciation for the year on machinery		1,250

	As at 31 st March 2017 (Rs. '000)	As at 31 st March 2016 (Rs. '000)
Cost of machinery	3,000	2,500
Accumulated depreciation of machinery	(2,000)	(1,500)

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Cost of disposed machinery during the year ended 31st March 2017 was Rs.1,000,000/-. Depreciation for the current year includes the depreciation of disposed machinery up to date of disposal. New machinery has been purchased on 31st March 2017 and no depreciation has been provided on that machinery for the year ended 31st March 2017.

You are required to:

Prepare the Net Cash Flows generated from investing activities for the year ended 31st March 2017 showing separately cash received from the disposal of old machinery and cash paid to purchase of new machinery. (05 marks)

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Question 04 - 2018 July Question 04

The following information was extracted from the books of **Jaz Ltd.:**

- (1) On 01st February 2018, Jaz Ltd. issued 100,000 ordinary shares at an issue price of Rs.10/- each. Of this total consideration, Rs.6/- per share is payable on application before 20th March 2018 and the balance of Rs.4/- per share is payable on allotment on 10th April 2018. The company has received applications for 120,000 shares and rejected the excess applications with money received by 30th March 2018.
- (1) The company has obtained a bank loan of Rs.5 million on 01st January 2018 from ABC Bank. As per the loan agreement, re-payments have been started from 31st January 2018 and the breakup of the installments paid was as follows:

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	Total Installment paid (Rs.)	Interest portion (Rs.)
31.01.2018	77,955	68,700
28.02.2018	77,955	64,200
31.03.2018	77,955	61,380
Total	233,865	194,280

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(3) The company has obtained a bank overdraft facility of Rs.750,000/- on 31st March 2018.

(4) The company has given a long term loan of Rs.1,000,000/- on 31st March 2018 to a founder employee of the company.

You are required to:

Prepare the Net Cash Flows generated from financing activities for the year ended 31st March 2018. (05 marks)

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Rs.'000	31/3/X8	31/3/X7
Non-current Assets		
Property, Plant and Equipment	2900	2200
(-) Accumulated Depreciation	(575)	(400)
	2325	1800
Current Assets		
Inventory	420	385
Debtors	375	320
Prepaid Expenses	48	30
Cash	230	150
	1073	885
Total Assets	3398	2685

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Question 05

The Statements of Financial Position of Monica Ltd. are given below:

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Rs.'000	31/3/X8	31/3/X7
Equity		
Capital	2418	1435
Retained Earnings	285	220
	2703	1655
Non-current Liabilities		
Bank Loan	250	300
Current Liabilities		
Creditors	185	315
Current Portion of Bank Loan	50	100
Accrued Expenses	35	15
Tax Provision	100	120
Dividend Payable	75	180
	445	730
Total Equity and Liabilities	3398	2685

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Profit or Loss Account for the year ended 31/03/2018 (Rs.'000)		Sandeepa Jayasekera - JMC
Sales	4250	
Cost of Sales	(2850)	
Gross Profit	1400	
Administration Expenses	(175)	
Distribution Expenses	(480)	
Other Expenses	(270)	
Finance Expenses (Interest)	(200)	
Profit Before Tax	275	
Taxes	(110)	
Profit After Tax	165	
Dividends	(100)	
Retained Profit of the Year	65	

Prepare the Statement of Cash Flows using the Direct Method considering that all purchases and sales were made on credit

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Indirect Method

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Indirect Method

Profit Before Tax	XX
Adjustments	
Non-cash transactions	X/(X)
Non-operating Income/Expenses	X/(X)
Changes in Working Capital	X/(X)
Cash generated from Operating Activities	XX
Tax Paid	(X)
Net Cash Flow from Operating Activities	XX

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Statement of Cash Flows (Indirect Method)
For the year ended 31st March 20X0

	Rs.	Rs.
Cash Flows from Operating Activities		
Profit Before Tax	XX	
Adjustments		
Depreciation	XX	
Unrealised Gain/Loss on Foreign Exchange	X/(X)	
Profit/Loss on Disposal of Assets	X/(X)	
Investment Income	(XX)	
Impairment Losses	XX	
Interest Expense		³⁵ XX

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Cash from Operations prior to Changes in Working Capital		
Changes in Working Capital		
(Increase)/Decrease in Debtors	(X)/X	
(Increase)/Decrease in Inventory	(X)/X	
Increase/(Decrease) in Creditors	X/(X)	
Increase/(Decrease) in Accrued Expenses	X/(X)	
Cash generated from Operating Activities	XX	
Interest Paid	(X)	
Income Tax Paid	(X)	
Gratuity Paid	(X)	
Net Cash Flows from Operating Activities		XX

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Statement of Cash Flows (Indirect Method)

For the year ended 31st March 20X0

	Rs.	Rs.
Cash Flows from Investing Activities		
Purchase of Property, Plant and Equipment	(XX)	
Disposal Proceeds of Property, Plant and Equipment	XX	
New Investments	(XX)	
Interest Received	XX	
Dividends Received	XX	
Net Cash Flows from Investing Activities		XX

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Statement of Cash Flows (Indirect Method)

For the year ended 31st March 20X0

	Rs.	Rs.
Cash Flows from Financing Activities		
Proceeds from Issue of Shares	XX	
Long term Loans Obtained	XX	
Loans Repaid	(XX)	
Dividends Paid	(XX)	
Interest Paid	(XX)	
Net Cash Flows from Financing Activities		XX

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Question 07

1. The profit of ABC Ltd. is Rs. 1,000/-. Depreciation is Rs. 200/-. All other income and expenses are made in cash. Calculate the Profit received in Cash.
2. Total Profit of Sita Ltd. Was Rs. 5,000/-. The profit from the sale of land during the year is Rs. 1,000/-. Except this, all income and expenses are made in cash. Calculate the Profit received in Cash.
3. The Opening Debtor Balance of Rollo Ltd. is Rs. 500/- and the Closing Debtor Balance is Rs. 1,000/-. Profit for the year is Rs. 1,000/-. Sales is Rs. 5,000/-. If all income and expenses, other than sales, were made in cash, what is the Profit received in Cash?
4. The Opening Creditor Balance of Rita Ltd. is Rs. 4,000/-. Credit purchases during the year is Rs. 10,000/-. The Closing Creditor Balance is Rs. 2,000/-. Profit for the year is Rs. 7,000/-. If all income and expenses, other than credit purchases, were made in cash, what is the Profit received in Cash?

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Question 08 - 2018 January Question 07

The Statements of Financial Position as at 31st March 2017 and 31st March 2016 of **ABC Company Ltd.** are given below:

Rs.'000	As at 31 st March 2017		As at 31 st March 2016	
Assets				
Non-current Assets:				
Property, Plant and Equipment (at cost)	10,000		10,000	
Accumulated Depreciation	(4,500)		(4,000)	
Carrying Value		5,500		6,000
Current Assets:				
Inventories	5,500		6,000	
Trade and Other Receivables	8,100		5,160	
Cash and Cash Equivalentents	250	13,850	300	11,460
Total Assets		19,350		17,460

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Rs.'000	As at 31 st March 2017		As at 31 st March 2016	
Equity and Liabilities				
Equity:				
Ordinary Share Capital		10,000		10,000
Irredeemable Preference Share Capital		4,000		2,500
Retained Earnings		2,300		400
Total Equity		16,300		12,900
Non-current Liabilities:				
Bank Loan		350		1,250
Current Liabilities:				
Bank Loan	750		750	
Trade and Other Payable	1,660		2,300	
Loan Interest Payable	40		60	
Income Tax Payable	250	2,700	200	3,310
Total Equity and Liabilities		19,350		17,460

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The following additional information is also provided:

- (1) Income tax expense for the year ended 31st March 2017 was Rs.600,000/-.
- (2) Interest expense on bank loan for the year ended 31st March 2017 was Rs.380,000/-.
- (3) There were no disposals or purchases of Property, Plant and Equipment during the year.
- (4) No dividends are paid or declared during the year.

You are required to:

Prepare the statement of Cash Flows of **ABC Company Ltd.** for the year ended 31st March 2017 using indirect method.

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Question 09 - 2018 July Question 06

The Statements of Financial Position of **Seven Roses Ltd.** as at 31st March 2017 and 31st March 2018 are given below:

Rs.'000	As at 31 st March 2018		As at 31 st March 2017	
Assets:				
Non-current Assets:				
Property, Plant and Equipment (at cost)	46,000		56,000	
Accumulated Depreciation	(24,000)		(20,000)	
Carrying value		22,000		36,000
Current Assets:				
Inventories	16,000		5,800	
Trade Receivables	33,500		29,400	
Cash and Cash Equivalents	3,500	53,000	5,000	40,200
Total Assets		75,000		76,200

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Rs.'000	As at 31 st March 2018		As at 31 st March 2017	
Equity and Liabilities				
Equity:				
Ordinary Share Capital		50,000		50,000
Retained Earnings		7,200		6,000
		57,200		56,000
Current Liabilities:				
Trade and Other Payables	17,700		19,800	
Income Tax Payable	100	17,800	400	20,200
Total Equity and Liabilities		75,000		76,200

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The following additional information is also provided:

- (1) During the year, the company paid interim dividend of Rs.2,000,000/- to its ordinary shareholders.
- (2) On 31st March 2018, the company sold a machinery for Rs.4 million which was purchased on 01st April 2015 at a cost of Rs.10 million. The useful life time of the machinery is 5 years.
- (3) There were no purchases of Property, Plant and Equipment during the year.
- (4) The income tax expense of the company for the year of assessment 2017/18 was estimated to be Rs.450,000/-.

Using the above information,

You are required to:

Prepare the Cash Flow Statement of **Seven Roses Ltd.** for the year ended 31st March 2018 using indirect method. (10 marks)⁴⁵

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Question 10 - 2019 January Question 06

The statements of Financial Position as at 31st March 2017 and 31st March 2018 of **Siyasto Creations (Pvt) Ltd.** are as follows:

As at 31 st March	Rs.'000	2018	2017
Assets:			
Non-current Assets:			
Property, Plant and Equipment at cost		4,740	4,300
Accumulated Depreciation		(2,060)	(1,410)
Carrying Value		2,680	2,890
Current Assets:			
Inventories		2,370	1,415
Trade Receivables		4,450	2,536
Cash and Cash Equivalentents		2,280	1,320
		9,100	5,271
Total Assets		11,780	8,161

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As at 31 st March	Rs.'000	2018	2017
Equity:			
Stated Capital - Ordinary shares		2,000	2,000
Retained Earnings		3,660	1,460
		5,660	3,460
Non-current Liabilities:			
Long Term Loans		1,000	-
Employee benefits (Provision for gratuity)		590	500
Deferred Tax Liabilities		720	500
		2,310	1,000
Current Liabilities:			
Trade Payables		2,760	2,851
Income Tax Payables		1,050	850
		3,810	3,701
Total Equity and Liabilities		11,780	8,161

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Extract of the Statement of Comprehensive Income for the year ended 31 st March 2018	
	Rs.'000
Profit before interest and income tax	2,900
Interest expenses	(250)
Profit Before Income Tax	2,650
Income tax	(450)
Profit for the year	2,200
The following additional information is also provided:	
(1) Income tax for the year includes the deferred tax expense for the year ended 31 st March 2018.	

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- (2) An equipment costing Rs.550,000/- has been disposed during the year ended 31st March 2018 for Rs.400,000/-. The carrying value of the equipment as at the date of disposal was Rs.200,000/-.
- (3) There was no other comprehensive income for the year ended 31st March 2018. Further, there were no accrued interest expenses as at the year end.
- (4) No payments for gratuity was made during the year ended 31st March 2018.

You are required to:

Prepare the Statement of Cash Flows of **Siyasto Creations (Pvt) Ltd.** for the year ended 31st March 2018 under the indirect method. (10 marks)

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Question 11 - 2020 July Question 05

The statements of financial position of **Royal (Pvt) Ltd.** are given below:

As at 31 st March	Rs.'000	2020	2019
Non-Current Assets:			
Property, Plant and Equipment		4,205	3,838
Accumulated Depreciation		(2,090)	(1,810)
Carrying value		2,115	2,028
Current Assets:			
Inventories		1,320	920
Trade Receivables		1,723	1,905
Cash and Cash Equivalents		397	457
		3,440	3,282
Total Assets:		5,555	5,310

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As at 31 st March	Rs.'000	2020	2019
Equity:			
Stated Capital		1,000	1,000
Retained Earnings		960	820
		1,960	1,820
Non-Current Liabilities:			
Long Term Loans		1,300	1,200
		1,300	1,200
Current Liabilities:			
Short Term Loans		200	150
Trade Payables		1,695	1,590
Interest Payable on loans		180	100
Income Tax Payable		220	450
		2,295	2,290
Total Equity and Liabilities		5,555	5,310

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The following additional information is also provided:

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- (1) Income tax expense for the year ended 31st March 2020 was Rs. 205,000/-.
- (2) A more vehicle has been disposed on 31st March 2020 for Rs. 1,800,000/- by the company. The cost of the motor vehicle and accumulated depreciation as at 31st March 2020 were Rs. 2,500,000/- and Rs. 1,250,000/- respectively. Further, on the same day, the company has purchased a motor lorry.
- (3) Interest expense on loans for the year ended 31st March 2020 was Rs. 295,000/-.
- (4) An interim dividend of Rs. 100,000/- had been paid during the year to its ordinary shareholders.
- (5) The company has obtained a bank loan of Rs. 800,000/- during the year.

You are required to:

Prepare the Statement of Cash Flows of **Royal (Pvt) Ltd.** for the year ended 31st March 2020 using indirect method. (10 marks)

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Question 12 - 2021 January Question 07

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The Statements of Financial Position of **Gamage (Pvt) Ltd.** given below:

As at 31 st March	Rs.'000	2020	2019
Non-Current Assets:			
Property, Plant and Equipment		3,205	2,838
Accumulated Depreciation		(1,090)	(810)
Carrying Value		2,115	2,028
Current Assets:			
Inventories		1,520	1,920
Trade Receivables		1,320	905
Cash and Cash Equivalents		600	457
		3,440	3,282
Total Assets:		5,555	5,310

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As at 31 st March	Rs.'000	2020	2019
Equity:			
Stated Capital		1,000	1,000
Retained Earnings		1,560	820
		2,560	1,820
Non-Current Liabilities:			
Long Term Loans		750	1,200
		750	1,200
Current Liabilities:			
Trade Payables		1,675	1,590
Short Term Loans		150	150
Interest Payable on loans		200	100
Income Tax Payable		220	450
		2,245	2,290
Total Equity and Liabilities		5,555	5,310

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The following additional information is also provided:

- (1) Income tax expenses for the year ended 31st March 2020 was Rs. 110,000/-.
- (2) A Motor vehicle was disposed on 01st April 2019. The cost of motor vehicle disposed was Rs. 1,200,000/- and accumulated depreciation as at 01st April 2019 was Rs. 650,000/-. Profit on disposal of the motor vehicle was Rs. 600,000/-.
- (3) Interest expense on loans for the year was Rs. 120,000/-.
- (4) An interim dividend of Rs. 200,000/- has been paid for ordinary shareholders during the year.

You are required to:

Prepare the Statement of Cash Flows for **Gamage (Pvt) Ltd.** for the year ended 31st March 2020 using indirect method. (10 marks)

