

Financial Reporting And Accounting
Statement Of Cash Flow – LKAS 07

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Agenda

1. Objective and benefits of statement cash flows
2. Definitions
3. Presentation of statement of cash flows (how bs is link to cfs)
4. Direct and indirect methods
5. Indirect method additional considerations
6. Worked out example for operating activity
7. Investing activity and examples
8. Financing activity and examples

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Objective

Provide historical changes in the cash and cash equivalent of an entity which is divided into operating, investing and financing, thereby the users can assess the ability, timing and certainty of cash flows.

Benefits

- Facilitates the users to develop models to assess & compare PV of cashflows.
- Enhance comparability
- Facilitate the assess the accuracy of past budgets and predictions

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Definitions

- Cash - cash on hand and demand deposits (Cash and Current Accounts)
- Cash equivalents - 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 (Fixed Deposits Less than 90 Days maturity)
- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- Financing activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

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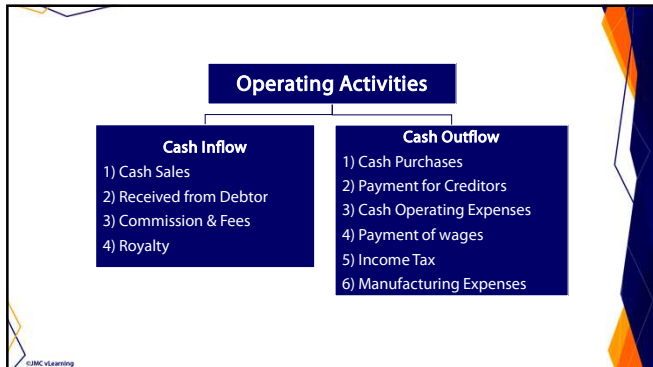
Special focus

- 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" (Sweep account facility with bank)
- cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose.
- investments normally qualify as cash equivalents only when they have a short maturity of, say, three months or less from the date of acquisition.
- where bank overdrafts are repayable on demand and form an integral part of an entity's cash management, they are included as a component of cash and cash equivalents.

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- The statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.
- Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity. Therefore, they generally result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:
 - a. Cash receipts from the sale of goods and the rendering of services;
 - b. Cash receipts from royalties, fees, commissions and other revenue;
 - c. Cash payments to suppliers for goods and services;
 - d. Cash payments to and on behalf of employees;
 - e. Cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and

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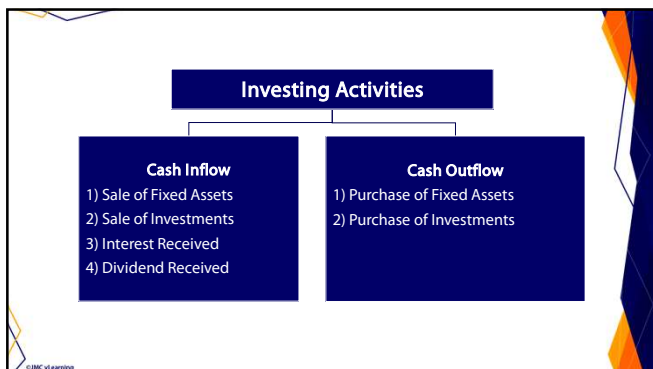
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Investing activities

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are;

- Cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalized development costs and self-constructed property, plant and equipment;
- Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- Cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures
- Cash advances and loans made to other parties
- Cash receipts from the repayment of advances and loans made to other parties

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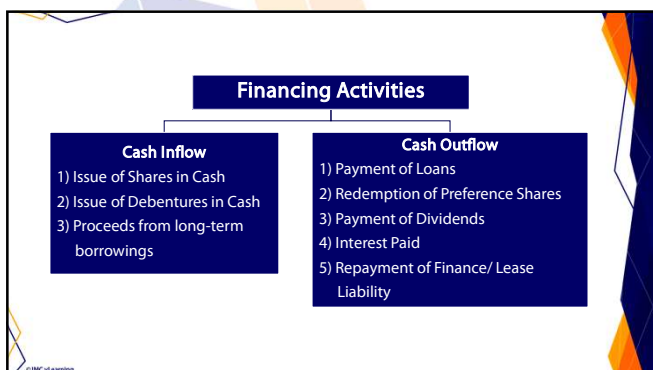
Financing Activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity.

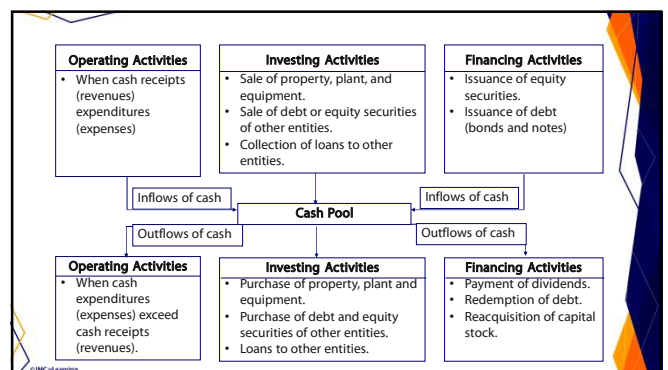
Examples of cash flows arising from financing activities are:

- Cash proceeds from issuing shares or other equity instruments;
- Cash payments to owners to acquire or redeem the entity's shares;
- Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- Cash repayments of amounts borrowed; and
- Cash payments by a lessee for the reduction of the outstanding liability to a finance lease.

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We will observe the board to consider how the SFP and PL were used to derived at SCF

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Direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed

Cash flows from operating activities

Cash receipts from customers	30,150
Cash paid to suppliers and employees	(27,600)
Cash generated from operation	2,550
Interest paid	(270)
Income taxes paid	(900)
Net cash from operating actives	1,380

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The indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Cash flows from operating activities

Profit before taxation	3,350
Adjustments for:	
Depreciation	450
Foreign exchange loss	40
Investment income	(500)
Interest expense	4000
	3,740
Increase in trade and other receivables	(500)
Decrease in inventories	1,050
Decrease in trade payables	(1,740)
Cash generated from operations	2,550
Interest paid	(270)
Income taxes paid	(900)
Net cash from operating activities	1,380

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Net profit to CF from operating activity

Description	Amount
Net Profit Before Tax	XXXX
Add Non Cash Items / Less FA Disposal Profit	XX
Adjust items that are reclassified to other activities	XX
Add Interest Expenses	XX
Operating Profit Before WCC	XXXXX
Increase or Decrease in Inventories	XXX
Increase or Decrease in Trade and Other Receivables	XXX
Increase or Decrease in Trade and Other Payables	XXX
Cash Generated from Operations	XXXXX
Less Interest Paid	XXX
Less Taxes Paid	XXX
Net Cash Generated from Operating Actives	XXXXX

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Examples of NCI

1. PPE Depreciation – Add to PBT (b'coz it was deducted when arriving profit)
2. Amortization of IA
3. Disposal loss – Add to PBT
4. Disposal Profit – Deduct from PBT
5. Increase in the Provision for Bad Debts – Add to PBT
6. Increase in the Provision for Gratuity – Add to PBT

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Relationship between CA, CL and Cash

Item	Change	Impact to Cash	Inflow	Outflow
Inventories	Increase	Decrease		X
Inventories	Decrease	Increase	X	
CA & Cash has a negative relationship				
Item	Change	Impact to Cash	Inflow	Outflow
T/Receivables	Increase			
T/Receivables	Decrease			
CA & Cash has a negative relationship				
Item	Change	Impact to Cash	Inflow	Outflow
T/Receivables	Increase			
T/Receivables	Decrease			
CA & Cash has a positive relationship				

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Special Focus – deriving PBT

Description	Amount
Closing retained earning	xxxxx
Opening retained earning	(xxxx)
Retained profit for the year after any dividends	xxxx
If any, add: dividends paid	xxx
Profit after tax	xxx
Add: tax expenses	xxx
Profit before tax	xxx

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Example 01

The following information is available for the year ended 31st Dec 2018.

Description	\$:000
Sales - Credit	800
- Cash	400
Purchases - Credit	600
- Cash	200
Staff Exp for the year	300

Assets and liabilities	As at	
	31st-Dec-18	1st Jan 18
Debtors	150	600
Creditors	100	250
Salaries payable	175	100

Required:

- Profit for the year assuming there were no stocks at the beginning or end of the year and there were no other income or expenses
- The amount of cash received from sales for the year
- The amount of cash paid for purchases during the year
- The amount of cash paid to employees
- The net cash flow from operations for the year

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Example 01

The following information is available for the year ended 31st Dec 2018.

Description	\$:000
Sales -Credit	800

Assets and liabilities	As at	
	31st-Dec-18	1st Jan 18
Debtors	150	600

Debtors Control AC			
BBF	600.00		
		Cash	1,250.00
Sales Cred	800.00		
		BCF	150.00
	1,400.00		1,400.00
BBF	150.00		

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Example 01

The following information is available for the year ended 31st Dec 2018.

Description	\$:000
Purchases -Credit	600

Assets and liabilities	As at	
	31st-Dec-18	1st Jan 18
Creditors	100	250

Creditors Control AC			
		BBF	250.00
Cash	750.00		
		Purchases	600.00
BCF	100.00		
	850.00		850.00
		BBF	100.00

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Example 01

The following information is available for the year ended 31st Dec 2018.

Description	\$:000
Staff Exp for the year	300

Assets and liabilities	As at	
	31st-Dec-18	1st Jan 18
Salaries payable	175	100

Staff Salary Control AC			
		BBF	100.00
Cash	225.00		
		Salary Exp.	300.00
BCF	175.00		
	400.00		400.00
		BBF	175.00

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Relationship between CA, CL and Cash

Item	Change	Impact to Cash	Inflow	Outflow
Inventories	Increase	Decrease		X
Inventories	Decrease	Increase	X	

CA & Cash has a negative relationship

Item	Change	Impact to Cash	Inflow	Outflow
T/Receivables	Increase	Decrease		X
T/Receivables	Decrease	Increase	X	

CA & Cash has a negative relationship

Item	Change	Impact to Cash	Inflow	Outflow
T/Payables	Increase	Increase	X	
T/Payables	Decrease	Decrease		X

CA & Cash has a positive relationship

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Example 02

The following details are made available to you from the books of B Ltd for the year ended 31st Dec 2018

	\$,000
Sales	3,000
Purchases	575
Salaries	175
Expenses	300
Interest Income	10
Interest expenses	7

Assets and liabilities	As at	
	31-Dec-18	1-Jan-18
Inventories	225	150
Debtors	550	500
Creditors	450	400
Salaries payable	25	50
Interest Payable	2	1

Required

- Profit calculation
- Cash flow from direct method and indirect method

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Relationship between CA, CL and Cash

Item	Change	Impact to Cash	Inflow	Outflow
Inventories	Increase	Decrease		X
Inventories	Decrease	Increase	X	

CA & Cash has a negative relationship

Item	Change	Impact to Cash	Inflow	Outflow
T/Receivables	Increase	Decrease		X
T/Receivables	Decrease	Increase	X	

CA & Cash has a negative relationship

Item	Change	Impact to Cash	Inflow	Outflow
T/Payables	Increase	Increase	X	
T/Payables	Decrease	Decrease		X

CA & Cash has a positive relationship

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Investing activities

Cash Inflow	Cash Outflow	NCI
Disposal of FA	Purchases of FA	Disposal Profit / Loss
Disposal of IA, if any	Purchases of IA	Revaluation of PPE
Disposal of Investments	Purchases of Investments	Depreciation of PPE or Amortization of IA
Interest and Dividends received should be considered as investing activities		

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Example 03

The following are extracts from the balance sheet

Cat Limited as at 31 March	2019	2020
Freehold premises	\$,000	\$,000
Plant and machinery	750	1,000
Motor vehicles	400	430
	250	281
Accumulated Depreciation	1,400	1,711
Plant and machinery		
	220	230
Motor vehicle	175	205
	395	435
Net book value	1,005	1,276
Asset revaluation reserve	-	250

In the year 31 March 2020 plant and machinery which had cost \$, 80,000 and had been written down to \$, 10,000 was sold for \$, 7,000. In addition, motor vehicles which had cost \$, 33,000 were sold for \$, 8,000 at a profit of \$, 2,000.

Required

Calculate the figures to be included in a cash flow statement for the year to 31 March 2020.

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2020 January Question 04

The following balance were extracted from the Statement of Financial Position of Ameen PLC.

As at 31 st March	2019 (Rs.'000)	2018 (Rs.'000)
Non-Current Assets:		
Property, Plant and Equipment	58,500	57,500
Accumulated Depreciation	(34,800)	(28,200)
Carrying Value	23,700	29,300

The following additional information is also provided:

- A motor vehicle was sold on 1st January 2019 and cost and accumulated depreciation at the date of disposal were Rs.4,500,000/- and Rs.2,800,000/- respectively. Loss on disposal of the motor vehicle was Rs. 475,000/-. The company acquired a motor vehicle for Rs.3,000,000/- on 31st March 2019 to replace the sold vehicle.
- Office furniture included in property, Plant and Equipment was acquired on 31st March 2019.

Using the above information,

You are required to:

Prepare the cash flows from investing activities of Ameen PLC for the year ended 31st March 2019. (5 marks)

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Investing activities

Cash Inflow	Amount	Cash Outflow	Amount	NCI	Amount
Disposal of FA		Purchases of FA		Disposal Profit / Loss	
Disposal of IA, if any		Purchases of IA		Revaluation of PPE	
Disposal of Investments		Purchases of Investments			

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Example 04

The tax liability shown in the Statement of Financial Position at 31 March 2019 was \$ 345,000.

The liability for tax shown in the Statement of Financial Position at 31 March 2018 was \$ 410,000.

In the company's profit and loss account for the year ended 31 March 2019 was 398,000.

Required

Calculate tax paid during the year.

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Example 05

Statement of Financial Position extract as at 30 June 2019 and 30 June 2020 are given below.

	2019	2020
	\$ '000	\$ '000
Tax payable	157	201
Deferred taxation	50	60
Extract of the profit & loss account		\$ '000
Profit before tax		974
Income tax		(210)
Profit after tax		764

Required

Calculate tax paid during the year.

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Financing activities

Cash Inflow	Cash Outflow
Issue of share	Redemption of share
Issue of debenture	Redemption of share
Receipt of Loan	Repayment of Loan
	Dividends

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Example 06

Dividends

Proposed dividends are shown in the Statement of Financial Position and interim dividends paid during the year are debited in the profit and loss account together with the proposed final dividend for the year.

Therefore dividend paid during the year include interim dividend paid during the year and the proposed dividend of the previous year.

Ex: 11

The following extract are taken from the Statement of Financial Position of N Limited.

	31/12/2017	31/12/2018
Proposed dividends	75,000	120,000

The profit and loss account for the year ended 31/12/2018 contains interim dividend of \$ 60,000 and proposed dividends of \$ 120,000.

Required

Calculated amount paid as dividend during the year.

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Example 07

Statement of Financial Position extract

	31/03/2020	31/03/2019
	\$ '000	\$ '000
Share capital	18,000	13,000
Reserve -	-	2,000
Retained Earnings	5,610	4,550

During the year the company issued 300,000 shares at a price of \$ 10 each and made a bonus issue utilizing the general reserve.

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2019 July Question 04

Balance sheet extracted from the statement of Financial Position of Lanka Teas (PVT) Ltd. As at 31st March 2019 and 31st March 2018 are as follows:

As at 31 st March	2019	2018
Non-Current Assets:		
Property, Plant and Equipment (at cost)	2,000,000	1,800,000
Accumulated Depreciation	(1,400,000)	(1,500,000)
Intangible Assets	35,000	-
Investment in other companies (at cost)	165,000	-
	800,000	300,000
Current Assets:		
Investment	65,000	90,000
Trade Receivables	17,000	21,000
	82,000	111,000
Total Assets	882,000	411,000

The following additional information is also provided:

- Depreciation for the year ended 31st March 2019 was Rs.500,000/-.
- A motor vehicle was sold for cash on 31st March 2019. Cost of the motor vehicle and accumulated depreciation as at 31st March 2019 were Rs.1,200,000/- and Rs.600,000/- respectively. Profit on disposal of this motor vehicle was Rs.200,000/-.
- The company acquired a new motor vehicle on 31st March 2019.
- Intangible assets represent patent rights acquired on 31st March 2019.

Using the above information,

you are required to:

Prepare the Cash flows from Investing activities of Lanka Teas (PVT) Ltd. For the year ended 31st March 2019.

(05 marks)

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2017 June Question 04

The statement of cash flows shall report cash flows during the period classified by operating activities, investing activities and financing activities.

- State three(03) examples of cash flows arising from investing activities.
- State two(02) non-cash transactions which are excluded from the statement of cash flows.

(02 marks)
(Total 05 marks)

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Additional MCQs

- In the operating profit note of a statement of cash flows it is usual to find adjustment for items not involving cash movement, which one of the following items might appear under such a heading?
 - The profit on disposal of non-current assets.
 - The accumulated depreciation on non-current assets.
 - The income statement charge for taxation.
 - The allowance for receivables.
- Which of the following would correctly calculate the operating cash flows for a company?
 - Operating profit plus inventory increase less receivable decrease plus payable increase
 - Operating profit less inventory increase less receivable increase plus payable increase
 - Operating profit less inventory increase plus receivable decrease less payable increase
 - Operating profit less inventory increase less receivable increase less payable increase

Answer Q1 - A and Q2 - B

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Additional MCQs

- A company has the following payments and receipts during its accounting period. Calculate the "financing" cash flow figure its statement of cash flows. Issue of shares \$515,000, loan stock repaid \$200,000, share premium received \$230,000, proceeds of a rights issue \$315,000, interest paid \$115,000.
 - \$860,000
 - \$545,000
 - \$745,000
 - \$630,000
- A company has the following non-current asset transactions. Non-current assets purchased cost \$1,200,000, part of the costs of these (\$100,000) are unpaid at the year end. Non-current assets value \$500,000 are also leased. Non-current assets sold for \$50,000. Depreciation for the period is \$170,000. Calculate the capital investment cash flow.
 - \$880,000 (outflow)
 - \$1,050,000 (outflow)
 - \$1,100,000 (outflow)
 - \$1,150,000 (outflow)

Answer Q3 -A and Q4- B

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Additional MCQs

5. A non-current assets note includes:

	At 31/12/24	At 31/12/23
Plant and machinery		
Cost	10,500	9,400
Depreciation	3,400	4,100
Motor vehicles		
Cost	12,600	10,500
Depreciation	4,100	3,600

Plant and machinery with a cost of \$2,000 and a written down value of \$1,200 was sold during the year. In the statement of cash flows what is the figure for payments to acquire non-current assets in the year to 31/12/24?

- \$3,200
 - \$4,400
 - \$4,700
 - \$5,200
6. When comparing two statement of financial position you notice that:
- Last year the company had included in current assets investments of \$10,000. This year there are no investments in current assets.
 - Last year the company had an overdraft of \$8,000, this year the overdraft is \$4,000.
- In the statement of cash flows. The change in cash would be.
- Increase \$4,000
 - Decrease \$4,000
 - Increase \$6,000
 - Decrease \$6,000

Answer Q5 - D and Q6 - A

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Additional MCQs

- A company statement of financial position shows dividends payable of \$50,000 at 31 December 20X2 and \$75,000 at 31 December 20X3. The SOCIE for the year ended 31 December 20X3 shows dividends of \$65,000. What is the figure for dividends paid to be included in the statement of cash flows?
 - \$50,000
 - \$75,000
 - \$65,000
 - \$40,000

Answer Q7 - C

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Thank You

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