

# CASH FLOW STATEMENTS

GRADE 12  
ACCOUNTING  
MODULE 4 (2)  
LESSON 1

# CASH FLOW STATEMENTS

- During **Inflation**:

- Expect rising selling prices to generate sufficient cash to compensate for rising running costs
  - NOT always true –



- During a **recession**:

- Fewer sales
- Adds to liquidity, solvency & cash flow problems

# CASH FLOW STATEMENTS

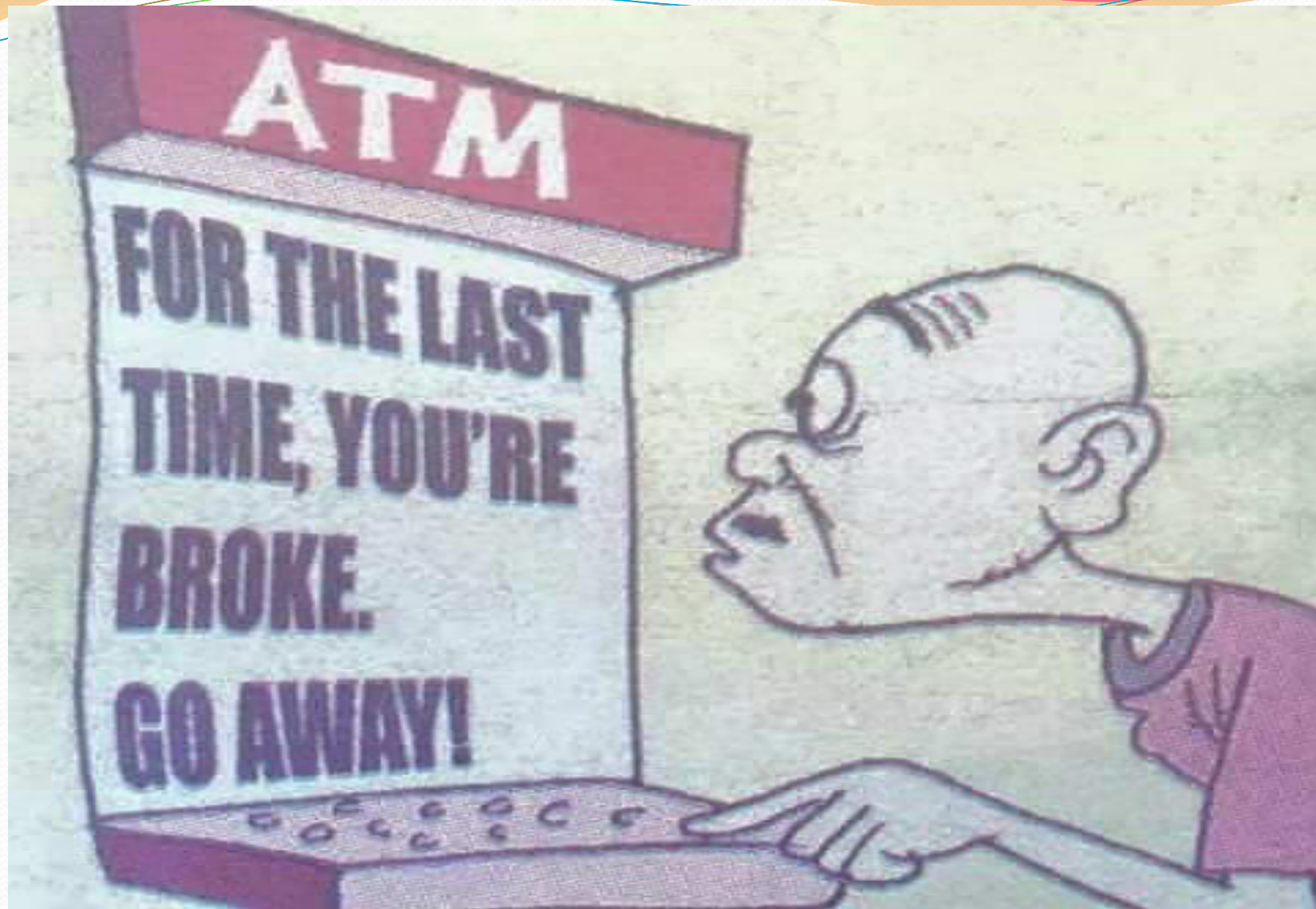
- Financial Statements are prepared according to **matching** principle of GAAP.
  - Adjustments 'contaminate' making it difficult to know HOW MUCH CASH is 'flowing' in and out
- SAICA solved the problem:
  - Provided Cash Flow information to the users of F/S.
    - A statement of GAAP covering cash flow information created
  - Cash Flow Statements are required to be included in the **company's published annual report.**

# PURPOSE

- OBJECTIVE: to provide:
  - Users of financial statements with information of all the financial resources during the accounting period.
  - Details of cash generated or used during
    - **Operations**
    - **Investing**
    - **Financing activities**
- Assessment of **liquidity & control of working capital** are NB in analysing the performance of a company.
  - Questions which may concern the reader of an annual report
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# PURPOSE

- Cash situation is affected by items in the I/S & B/S
  - Both statements have been adjusted using the accrual principle
    - To identify the manner in which cash has been received or spent need information from the 2 statements.
    - EXAMPLE: If loans increased from **R10 0000 to R60 000**
      - There has been an **INFLOW** of **R50 000** (has an additional R50 000 to use)
      - Obtain this information from B/S by comparing figures for current year with those of last year.
- Cash generated from cash sales or cash that is used to pay expenses is found in the income statement.
  - allowances must be made for items not yet paid or received yet



# SUMMARY

- THE CASH FLOW STATEMENT WILL:
  - Provide **quality information** to the users of company financial statements
  - Identify the **degree of risk**
  - Identify the **ability** of the company to **generate profits** and favourable **cash flows** in the future.
- This will be:
  - NB information **for shareholders**
    - to assess the potential of the company to pay **future earnings & dividends** that may be due by them.

A hand is shown holding a stack of Euro banknotes. Overlaid on the image is large, stylized text. The text is arranged in several lines: 'PAYSLIP' in pink, 'MINUS RENT' in cyan, 'MINUS BILLS' in cyan, 'MINUS PETROL' in cyan, 'EQUALS' in pink, 'TWO MINUTE' in white, and 'NOODLES' in white. The background is a close-up of the banknotes, with a hand visible on the right side holding them.

**PAYSLIP**

**MINUS RENT**

**MINUS BILLS**

**MINUS PETROL**

**EQUALS**

**TWO MINUTE**

**NOODLES**



# FORMAT OF CF STATEMENT

Activities are divided into 3 broad activities:

- **OPERATING ACTIVITIES**

- Main income-earning activities of the company
  - Cash generated by these activities is most **significant indicator** of a company's success
    - BECAUSE: it relates to the **main purpose** of establishing the company
- EXAMPLES of **operating** activities
  - Buying & selling stock
  - Paying creditors
  - Receiving payment from debtors
  - Paying all the expenses
  - Paying SARS for tax
  - Paying the shareholders for dividends

FOX WALKING DEAD



# FORMAT OF CF STATEMENT

Activities are divided into 3 broad activities:

- **FINANCING ACTIVITIES** O + L
  - Involved in funding the infrastructure of the company
  - They result in the change in size & composition of the debt & capital funding
- **EXAMPLES of financing activities**
  - New issue of **shares**
  - Raising a **loan**
  - Repayment of loan
  - Buy back shares

# FORMAT OF CF STATEMENT

- **INVESTING** ACTIVITIES: **ASSETS**

- Involve actual establishment of the infrastructure of a company
  - In order to be in a position to earn income
- EXAMPLES of **Investing** activities
  - Investing in **Land & Building** (e.g. Shop premises = sales income)
  - Investing in Land & Building (e.g. Property = rent income)
  - **Fixed deposit** (generates income through interest)

## CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2010

Cash flow from <b>Operating</b> activities		XXX
Cash flows from <b>Financing</b> activities		(XX)
Cash flows from <b>Investing</b> activities		XXX
<b>Net change in cash &amp; cash equivalents</b>		<b>XXXX</b>

# BASIC FORMAT

## EXAMPLE:

- At the **beginning** of the accounting period there was **R8 000 cash** in the bank.
- During the year they received **cash of R265 000** from:
  - Operating activities R115 000;
  - proceeds from issue of shares R100 000 & loans raised R50 000.
- They also **paid out R235 000** for the following:
  - Operating activities R90 000
  - Fixed assets purchased R105 000
  - Loans repaid R40 000
- At **end** of year they had a cash bank balance of **R38 000**  
(**brackets** show an **OUTFLOW** & no brackets an **INFLOW**)

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### CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2010

<b>Operating</b> Activities (115 000 – 90 000)		<b>25 000</b>
<b>Financing</b> Activities (O + L)		<b>110 000</b>
Proceeds of <b>shares</b> issued		100 000
<b>Loan</b> raised		50 000
Repayment of <b>loans</b>		(40 000)
		<b>135 000</b>
<b>Investing</b> Activities (A)		<b>(105 000)</b>
Fixed assets purchased		(105 000)
<b>Increase in cash</b> (38 000 – 8 000)		<b>30 000</b>

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