

CASH FLOW STATEMENTS: Operating Activities Part 1

GRADE 12
ACCOUNTING
MODULE 4 (2)
LESSON 2

IDENTIFYING INFO FOR A CASH FLOW STATEMENT

- Info for the 3 activities is found in Inc State & Balance Sheet
 - Only item that doesn't fit into an activity is Retained Income
 - Retained Income is a link between Income Statement & Balance Sheet
 - It is already accounted for as Profit is taken to the Retained Income note
- The following explains how to identify the info & how it fits
 1. **OPERATING:**
 - Relates to main function of company – buying & selling, paying expenses, creditors & receiving pmts from debtors etc
 - Some cash is generated from owing SARS
 - Some cash is owed and paid to shareholders
 - These activities are identified in the
 - Income Statement
 - Working capital section of the Balance sheet
 2. **FINANCING:**
 3. **INVESTING :**

IDENTIFYING INFO FOR A CASH FLOW STATEMENT

1. OPERATING:

2. FINANCING:

- Cash effect of financing activities is easy to calculate:
 1. The proceeds of a new issue of shares
 2. Raising of loans
 3. Repayments of loans
- Calculate by comparing the year-end amounts of the share capital & non-current liabilities for 2 consecutive years.
- ***Interest expense is a consequence of financing activities***
 - ***Special treatment is needed***

3. INVESTING:

IDENTIFYING INFO FOR A CASH FLOW STATEMENT

1. **OPERATING:**
2. **FINANCING:**
3. **INVESTING:**
 - Cash effect of investing activities will be identified from:
 - Fixed assets
 - Financial assets (investments) part of the Balance sheet
 - Compare 2 consecutive years
 - Entry for depreciation causes complications
 - *Interest income* is a consequence of investing activities
 - Special treatment is needed

OPERATING ACTIVITIES

- EXAMPLE:

Income Statement of Juba Ltd	
Sales	R500 000
Cost of Sales	(300 000)
Gross Profit	200 000
Operating expenses	(163 000)
Wages	120 000
Depreciation	12 000
Sundry Expenses	31 000
Operating profit	37 000
Interest expense	(7 000)
Net profit before	30 000

#1 DEPRECIATION

This **does not** involve an **outflow of cash** – calculation only. Bank account is not affected. **NEED TO** take depreciation **out** of the calculation for the effect of cash flow

#2 INTEREST EXPENSE

This is **not** an operating activity. It is a cost of financing. **NEED TO** take this **out** of the operating activity calculation.

1. Calculating cash generated by **operating** activities

- There are 2 ways to calculate cash generated by operating activities – will look at Method 2

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Calculation of cash generated by operations

Operating profit	30 000
Eliminate the effects of:	19 000
Depreciation	12 000
Interest expense	7 000
Cash generated by operations	R49 000

Add back the effects of depreciation & interest expense