

# CASH FLOW STATEMENTS:

## Financing Activities

GRADE 12  
ACCOUNTING  
MODULE 4 (2)  
LESSON 4

# RE-CAPPING Operating Acts

- Some of the cash received as result of running the business is due to:
  - Financial institution – INTEREST
  - SARS – TAX
  - Shareholders – DIVIDENDS
- Re-capping:
  - NOTE 1: **Cash generated by operating activities:**
    - Step 1: **Net profit before** tax – this is the starting point
    - Step 2: Eliminate **depreciation & interest** – non-cash items
    - Step 3: Changes in **working capital**: can be an inflow/outflow
  - RESULT:** The cash inflow (or outflow) caused by **trading acts**

# RE-CAPPING Operating Acts

NEXT: (also to be deducted in the CFS)

- Along with Interest due to Financial Institutions you will need to calculate the amount due to
  - SARS for tax &
  - the Shareholders for Dividends
- Step 4:      Less: Interest paid (finance costs)
- Step 5:      Less: Taxation paid
- Step 6:      Less: Dividends paid

**RESULT:**      Cash flows from operating activities

**PROBLEM:** amount in the I/S for interest, dividends & tax is the amount for the year NOT necessarily what was paid!!!!

# TAX, INTEREST & DIVIDENDS

- Example shows how to solve the problem:

	2007
Turnover	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 tax NPBT	30 000
Taxation	(13 500)
Net profit for the year NPAT	16 500

We cannot say that the full amount has been PAID (outflow of cash)

# TAX, INTEREST & DIVIDENDS

- Extract from the NOTES:

RETAINED INCOME	2007	2006
Retained Income at beginning of year	8 000	
Net profit for the year	16 500	
Ordinary dividends	(10 000)	
Retained income at end of year	<b>14 500</b>	
<b>TRADE &amp; OTHER PAYABLES</b>		
Trade creditors	XXX	XXX
Expenses payable (Interest owed)	2 500	1 800
SARS (Income Tax)	1 200	900
Shareholders for dividends	4 000	1 000
	<b>XXX</b>	<b>XXX</b>

R7 000 amount in I/S  
 R2 500 owing @ end of year  
 R1 800 owing from last year & paid during year

R13 500 amount in I/S  
 R1 200 was **not** paid at the end of year  
 R900 would have been paid in the current year for the previous year

R10 000 amt in R/I note  
 R1 000 **not** paid from last year  
 R4 000 the final dividend for the current has **not** yet been paid

# CFS CALCULATION

- METHOD 1: Use of ledger accounts to calculate these amts
  - Textbook page
- METHOD 2: (preferred method)
  - DO NOT think () outflow or inflows

TAXATION PAID	
Amount due at the beginning of the year	900
Amount in the Income Statement	13 500
Amount <b>due</b> at the <b>end</b> of the year	(1 200)
<b>Cash amount paid</b>	<b>13 200</b>

If a DR balance the amount will be () as it was already paid & is not outstanding

CR Balance of R900 needs to be paid for last year

R13 500 needs to be paid for current year

R1 200 is still owing for the year, thus has **NOT** been **paid** therefore subtracted

R13 200 was the **OUTFLOW** for the current year

# CFS CALCULATION

- METHOD 2: (preferred method)
  - DO NOT think ( ) outflow or inflows

DIVIDENDS PAID	
Amount due at the <b>beginning</b> of the year	1 000
Total dividends for the year – interim & final	10 000
Amount <b>due</b> at the <b>end</b> of the year	(4 000)
<b>Cash amount paid</b>	<b>7 000</b>

R1 000 needs to be paid for last year's declared

R10 000 needs to be paid for current year

R4 000 is still owing for the year, (declared final) thus has NOT been paid therefore subtracted

R7 000 was the **OUTFLOW** for the current year

# CFS CALCULATION

- METHOD 2: (preferred method)
  - DO NOT think () outflow or inflows

<b>INTEREST PAID</b>	
Amount due at the beginning of the year	1 800
Amount in the Income Statement	7 000
Amount due at the end of the year	(2 500)
<b>Cash amount paid</b>	<b>6 300</b>

R1 800 needs to be paid for last year's declared

R7 000 needs to be paid for current year

R2 500 is still owing for the year, (declared final) thus has NOT been paid therefore subtracted

R6 300 was the OUTFLOW for the current year

If interest is paid up to date (i.e. None outstanding & no adjustment) then the amount in the Income Statement will be the same as the paid (outflow)

# INTEREST CAPITALISED

- Common that Interest is capitalised to a loan account
  - Interest is added to the loan on a monthly basis
  - All payments covering interest & loan repayments are deducted off the loan balance
- Example on page 185

Balance on 1 July 2006	500 000
<b>Interest for the year at 12,5%</b>	<b>+ X</b>
Repayments: R8 000 X 12	(96 000)
Balance on 30 June 2007	= 466 500

= R62 500 = interest portion

R96 000 - 62 500 = R33 500 represents the Capital repayment of the loan which will appear under Financing Activities in the CFS