

CASH FLOW STATEMENTS:

Investing Activities

GRADE 12
ACCOUNTING
MODULE 4 (2)
LESSON 5

INTRODUCTION

- Investing Activities relate to the Investment in:
 - Fixed assets (tangible assets)
 - Investments (financial assets)
- Investment activities comprise:
 - Purchases & Sale of fixed assets
 - Main problem experienced with calculating the cash flow with IA is the impact of depreciation on these investments)
 - Increase or decrease in financial investments

DIFFERENT INVESTING ACTIVITIES

1) PURCHASING FIXED ASSETS

	2007	2006
Equipment at cost	20 000	15 000
Accumulated depreciation	(8 000)	(6 600)
Book Value	12 000	8 400

- Cost of equipment ↑ by R5 000
 - Shows that new equipment was purchased
- Depreciation in the Income Statement would have been R1 400 (difference between R8 000 & R6 600)
- PROBLEM:
 - If we are only given the book value, the cash paid for the new equipment will not be so straight forward

DIFFERENT INVESTING ACTIVITIES

1) PURCHASING FIXED ASSETS

EXAMPLE

		2007	2006
Extract from the Income Statement	Depreciation	1 400	
Extract from Balance Sheet	Equipment (book value)	R12 000	R8 400

REQUIRED:

- Calculate the equipment purchased during 2007

SOLUTION

Book value at the beginning of year	R8 400
LESS: Depreciation	(1 400)
ADD: equipment purchased	X
Book value at the end of the year	R12 000

Missing figure = R5 000

DIFFERENT INVESTING ACTIVITIES

2) SALE OF FIXED ASSETS

EXAMPLE

		2007	2006
Extract from the Income Statement	Depreciation	1 400	
Extract from Balance Sheet	Equipment (BV)	R12 600	R8 400
Accumulated depreciation		(7 400)	(6 600)

REQUIRED:

- Calculate the equipment purchased during 2007.
- Equipment with a book value of R900 was sold during the year.

SOLUTION

Book value at the beginning of year	R8 400
LESS: Depreciation	(1 400)
LESS: Book value of equipment sold	(900)
ADD: equipment purchased	X
Book value at the end of the year	R12 600

Missing figure = R6 500

DIFFERENT INVESTING ACTIVITIES

2) SALE OF FIXED ASSETS

Cash effects of these investing activities are:

- R900 has been generated (received) through sale of asset
- R6 500 has been utilised (paid) through purchase of asset
 - Ledgers show it logically:

EQUIPMENT					
Balance	b/d	15 000	Asset disposal	gj	1 500
BANK (outflow)	cpj	6 500	Balance	c/d	20 000
ACCUMULATED DEPRECIATION ON EQUIPMENT					
Asset disposal	gj	600	Balance	b/d	6 600
Balance	c/d	7 400	DEPRECIATION	gj	1 400
ASSET DISPOSAL					
Equipment	gj	1 500	Acc dep on equipment	gj	600
			BANK (inflow)	gj	900

DIFFERENT INVESTING ACTIVITIES

3) INVESTING IN & MATURING FINANCIAL ASSETS

EXAMPLE

	2007	2006
Fixed deposit	100 000	150 000

REQUIRED:

- Calculate the cash effects of investing activities with regard to the fixed deposit.

SOLUTION

Balance at the beginning of year	R150 000
LESS: Fixed deposit decreased	X
Balance at the end of the year	R100 000

Missing figure = R50 000

DIFFERENT INVESTING ACTIVITIES

3) INVESTING IN & MATURING FINANCIAL ASSETS

• Cash effects of these investing activities are:

- R50 000 has been generated (converted into a current cash asset) through the expected maturing of a fixed deposit .
- A fixed deposit can also increase if a new fixed deposit is opened or a current fixed deposit is increased = cash utilised (paid out)
- **Ledgers show it logically**

FIXED DEPOSIT					
Balance	b/d	150 000	BANK (inflow)	crj	50 000
			Balance	c/d	100 000