

# CHAPTER 19

## Statement of cash flows

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## ADDITIONAL PROBLEMS

### Problem 19.1

 Simple statement of cash flows

The consecutive statements of financial position of J. Black, a sole trader, were as follows:

| J. BLACK<br>Statements of Financial Position<br>as at 30 June |              |                  |              |                   |
|---|--------------|------------------|--------------|-------------------|
|   | 2002         |                  | 2003         |                   |
| <b>CURRENT ASSETS</b>   |              |                  |              |                   |
| Cash at bank  |              | –                |              | \$ 2 750          |
| Sundry debtors  | \$ 3 300     |                  |              | 5 500             |
| Inventory   |              | 39 600           |              | 41 250            |
| <b>NON-CURRENT ASSETS</b>                                     |              |                  |              |                   |
| Equipment   | \$ 13 750    |                  | \$ 19 250    |                   |
| Accumulated depreciation                                      | <u>2 750</u> | 11 000           | <u>2 750</u> | 16 500            |
| Freehold property   |              | <u>27 500</u>    |              | <u>55 000</u>     |
|   |              | <u>\$ 81 400</u> |              | <u>\$ 121 000</u> |
| <b>LIABILITIES AND OWNER'S EQUITY</b>                         |              |                  |              |                   |
| Sundry creditors  |              | \$ 6 050         |              | \$ 4 400          |
| Bank overdraft  |              | 2 200            |              | –                 |
| Mortgage payable  |              | –                |              | 22 000            |
| J. Black, Capital   |              | <u>73 150</u>    |              | <u>94 600</u>     |
|   |              | <u>\$ 81 400</u> |              | <u>\$ 121 000</u> |

During the year, equipment which cost \$2750 and was written down to \$1650 was sold for \$1100. The proprietor's drawings were \$6600, and he introduced new capital to the extent of \$16 500.

Summarised items from the statement of financial performance for the year ended 30 June 2003 are:

|   |                  |
|---|------------------|
| Sales revenue                               | \$74 250         |
| <i>Less:</i> Cost of goods sold             | 45 100           |
| GROSS PROFIT                                | <u>29 150</u>    |
| Proceeds from sale of equipment             | 1 100            |
|   | <u>30 250</u>    |
| Operating expenses (including depreciation) | 18 700           |
| NET PROFIT                                  | <u>\$ 11 550</u> |

**Required:**

Prepare a statement of cash flows for J. Black.

## Solution

**J. BLACK**  
**Statement of Cash Flows**  
**for the financial year ended 30 June 2003**

|   |                 | Inflows<br>(Outflows) |
|---|-----------------|-----------------------|
| <u>Cash flows from operating activities</u> |                 |                       |
| Receipts from customers                     | \$72 050        |                       |
| Payments to suppliers and employees         | <u>(64 350)</u> |                       |
| Net cash provided by operating activities   |                 | \$7 700               |
| <u>Cash flows from investing activities</u> |                 |                       |
| Payment for equipment                       | (8 250)         |                       |
| Proceeds from sale of equipment             | 1 100           |                       |
| Payment for property                        | <u>(27 500)</u> |                       |
| Net cash used in investing activities       |                 | (34 650)              |
| <u>Cash flows from financing activities</u> |                 |                       |
| Proceeds from borrowings - mortgage         | 22 000          |                       |
| J. Black - drawings                         | (6 600)         |                       |
| Additional capital                          | <u>16 500</u>   |                       |
| Net increase in cash held                   |                 | <u>31 900</u>         |
| Cash at beginning of year                   |                 | <u>4 950</u>          |
| Cash at end of year                         |                 | <u><u>\$2 750</u></u> |

### Workings

|                         |            |                           |                            |
|-------------------------|------------|---------------------------|----------------------------|
| Received from customers | = Sales    | + Begin accounts rec'able | - Ending accounts rec'able |
| \$72 050                | = \$74 250 | + \$3 300                 | - \$5 500                  |

|                                |                      |                |                  |                       |                           |
|--------------------------------|----------------------|----------------|------------------|-----------------------|---------------------------|
| Payments to suppliers of goods | = Cost of goods sold | - Begin invent | + Ending invent. | + Begin accts payable | - Ending Accounts Payable |
| \$48 400                       | = \$45 100           | - \$39 600     | + \$41 250       | + \$6 050             | - \$4 400                 |

|                       |             |                           |                           |                          |                           |
|-----------------------|-------------|---------------------------|---------------------------|--------------------------|---------------------------|
| Payments for services | = Expense   | + Begin. accrued expenses | - Ending accrued expenses | - Begin prepaid expenses | + Ending Prepaid Expenses |
| \$15 950              | = \$15 950* | + 0                       | - 0                       | - 0                      | + 0                       |

\*(18 700 – 1 650 Carrying amount of equipment – 1 100 Depreciation)

| Equipment |           |                 |  |         |             |                 |
|-----------|-----------|-----------------|--|---------|-------------|-----------------|
| 1/7/02    | Balance   | 13 750          |  | 30/6/03 | Equip. sold | 2 750           |
| 30/6/03   | Purchases | 8 250           |  | 30/6/03 | Balance     | 19 250          |
|           |           | <u>\$22 000</u> |  |         |             | <u>\$22 000</u> |

| Accumulated Depreciation – Equipment |              |                |  |         |               |                |
|--------------------------------------|--------------|----------------|--|---------|---------------|----------------|
| 30/6/03                              | Carry amount |                |  | 1/7/02  | Balance       | 2 750          |
|                                      | equip. sold  | 1 100          |  | 30/6/03 | P & L Summary | 1 100          |
| 30/6/03                              | Balance      | <u>2 750</u>   |  |         |               |                |
|                                      |              | <u>\$3 850</u> |  |         |               | <u>\$3 850</u> |



## Problem 19.2 Statement of cash flows for a sole trader

The statement of financial position figures of the business of L. Mitchum for the last 2 years are:

| L. MITCHUM<br>Comparative Statements of Financial Position |           |                   |           |                   |
|--|-----------|-------------------|-----------|-------------------|
|  | 30/6/02   |                   | 30/6/03   |                   |
| Cash at bank   |           |                   | \$        | 7 520             |
| Accounts receivable  |           | \$ 11 200         |           | 13 600            |
| Inventory  |           | 38 400            |           | 44 800            |
| Plant and equipment  | \$ 24 000 |                   | \$ 28 800 |                   |
| Accum. depr. – plant and equipment                         | 11 200    | 12 800            | 12 000    | 16 800            |
| Land   |           | 32 000            |           | 16 000            |
| Buildings  | 32 000    |                   | 32 000    |                   |
| Accum. depr. – buildings                                   | 1 600     | 30 400            | 2 240     | 29 760            |
|  |           | <u>\$ 124 800</u> |           | <u>\$ 128 480</u> |
| Accounts payable   |           | \$ 19 200         |           | \$ 20 800         |
| Bank overdraft   |           | 8 000             |           | –                 |
| Mitchum, Capital   |           | 97 600            |           | 107 680           |
|  |           | <u>\$ 124 800</u> |           | <u>\$ 128 480</u> |

The statement of financial performance for the business for the year ended 30 June 2003 reveals the following details:

| L. MITCHUM<br>Statement of Financial Performance<br>for the year ended 30 June 2003 |               |                  |
|---|---------------|------------------|
| <b>REVENUE</b>  |               |                  |
| Sales revenue   |               | \$ 48 000        |
| Proceeds from sale of land  |               | 22 400           |
| Proceeds from sale of plant   |               | <u>1 920</u>     |
|   |               | 72 320           |
| <b>EXPENSES</b>   |               |                  |
| Cost of goods sold  | \$ 25 600     |                  |
| Depreciation of plant and equipment   | 3 200         |                  |
| Depreciation of buildings   | 640           |                  |
| Other expenses (including carrying amount of land and plant sold)                   | <u>25 440</u> | <u>54 880</u>    |
| <b>OPERATING PROFIT</b>   |               | <u>\$ 17 440</u> |

### Additional information

- During the year ended 30 June 2003, Mitchum withdrew \$80 per week for 52 weeks for private purposes.
- Mitchum also drew a cheque for \$3200 on her business bank account to pay her personal income tax.
- Land, shown in the accounts at \$16 000, was sold during the year for \$22 400.
- Plant costing \$4800 and written down to \$2400 was sold for \$1920.

### Required:

- Prepare a statement of cash flows for the year ended 30 June 2003.
- Prepare the note to the above statement reconciling net cash flows from operating activities with operating profit.

## Solution

A.

**L. MITCHUM**  
Statement of Cash Flows  
for the financial year ended 30 June 2003

|   | Inflows<br>(Outflows) |
|---|-----------------------|
| <u>Cash flows from operating activities</u> |                       |
| Receipts from customers                     | \$45 600              |
| Payments to suppliers and employees         | <u>(37 440)</u>       |
| Net cash provided by operating activities   | \$8 160               |
| <u>Cash flows from investing activities</u> |                       |
| Payment for plant                           | (9 600)               |
| Proceeds from sale of land                  | 22 400                |
| Proceeds from sale of plant                 | <u>1 920</u>          |
| Net cash provided by investing activities   | 14 720                |
| <u>Cash flows from financing activities</u> |                       |
| L. Mitchum - Drawings                       | <u>(7 360)</u>        |
| Net cash used in financing activities       | <u>(7 360)</u>        |
| <u>Net increase (decrease) in cash held</u> |                       |
|   | 15 520                |
| Cash at beginning of year                   | <u>(8 000)</u>        |
| Cash at end of year                         | \$7 520               |

Workings

|                         |   |          |   |                         |   |                          |
|-------------------------|---|----------|---|-------------------------|---|--------------------------|
| Received from customers | = | Sales    | + | Begin accounts rec'able | - | Ending accounts rec'able |
| \$45 600                | = | \$48 000 | + | \$11 200                | - | \$13 600                 |

|                                |   |                    |   |                |   |               |   |                     |   |                      |
|--------------------------------|---|--------------------|---|----------------|---|---------------|---|---------------------|---|----------------------|
| Payments to suppliers of goods | = | Cost of goods sold | - | Begin. Invent. | + | Ending Invent | + | Begin accts payable | - | Ending accts Payable |
| \$30 400                       | = | \$25 600           | - | \$38 400       | + | \$44 800      | + | \$19 200            | - | \$20 800             |
|                                |   |                    |   |                |   | 0             |   |                     |   |                      |

|                       |   |          |   |                         |   |                         |   |                        |   |                         |
|-----------------------|---|----------|---|-------------------------|---|-------------------------|---|------------------------|---|-------------------------|
| Payments for services | = | Expense  | + | Begin. accrued expenses | - | Ending accrued expenses | - | Begin prepaid expenses | + | Ending prepaid expenses |
| \$7 040               | = | \$7 040* | + | 0                       | - | 0                       | - | 0                      | + | 0                       |

\*(25 440 - 18 400 carrying amounts)

## Plant &amp; Equipment

|         |           |                 |         |            |                 |
|---------|-----------|-----------------|---------|------------|-----------------|
| 1/7/02  | Balance   | 24 000          | 30/6/03 | Plant sold | 4 800           |
| 30/6/03 | Purchases | 9 600           | 30/6/03 | Balance    | 28 800          |
|         |           | <u>\$33 600</u> |         |            | <u>\$33 600</u> |

## Accumulated Depreciation - Plant &amp; Equipment

|         |              |                 |         |               |                 |
|---------|--------------|-----------------|---------|---------------|-----------------|
| 30/6/03 | Carry amount |                 | 1/7/02  | Balance       | 11 200          |
|         | plant sold   | 2 400           | 30/6/03 | P & L Summary | 3 200           |
| 30/6/03 | Balance      | 12 000          |         |               |                 |
|         |              | <u>\$14 400</u> |         |               | <u>\$14 400</u> |

(continued)

| L. Mitchum – Capital |          |                  |         |                  |                |
|----------------------|----------|------------------|---------|------------------|----------------|
| 30/6/03              | Drawings | 7 360            | 1/7/02  | Balance          | 97 600         |
| 30/6/03              | Balance  | 107 680          | 30/6/03 | Operating profit | 17 440         |
|                      |          | <u>\$115 040</u> |         |                  | <u>115 040</u> |

**B.**

Reconciliation of Net Cash provided by Operating  
Activities to Operating Profit after Income Tax

|   |          |
|---|----------|
| Operating profit                          | \$17 440 |
| Depreciation                              | 3 840    |
| Proceeds from sale of land                | (22 400) |
| Proceeds from sale of plant               | (1 920)  |
| Carrying amount of plant sold             | 2 400    |
| Carrying amount of land sold              | 16 000   |
| Change in assets and liabilities          |          |
| Increase in accounts receivable           | (2 400)  |
| Increase in inventories                   | (6 400)  |
| Increase in accounts payable              | 1 600    |
| Net cash provided by operating activities | \$8 160  |



### Problem 19.3 Statement of cash flows for a partnership

Comparative statement of financial position information for 2002 and 2001, and statement of financial performance data for the year ended 30 June 2002 for the partnership of G. Coyne and R. Stewart were as follows:

|   | 30 June          |                  |
|---|------------------|------------------|
|   | 2002             | 2001             |
| Cash at bank  | \$ 34 400        | \$ 49 600        |
| Accounts receivable   | 67 600           | 60 800           |
| Inventory   | 90 800           | 99 200           |
| Property, plant and equipment   | 232 000          | 160 000          |
| Accumulated depreciation – property, plant and equipment                            | (80 000)         | (68 000)         |
| Patents   | 32 000           | 32 000           |
| Accumulated amortisation – patents  | (8 000)          | (4 000)          |
| <b>TOTAL ASSETS</b>   | <b>\$368 800</b> | <b>\$329 600</b> |
| Accounts payable  | \$ 53 600        | \$ 48 400        |
| Accrued expenses payable  | 2 600            | 7 600            |
| Long-term loan payable  | 20 000           | –                |
| Long-term mortgage payable  | 33 000           | 36 000           |
| G. Coyne, Capital   | 120 000          | 107 000          |
| R. Stewart, Capital   | 139 600          | 130 600          |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$368 800</b> | <b>\$329 600</b> |
| Sales   | \$354 800        |                  |
| Less: Cost of goods sold  | 226 400          |                  |
| <b>GROSS PROFIT</b>   | <b>128 400</b>   |                  |
| Operating expenses (including depreciation expense and patent amortisation expense) | 98 400           |                  |
| <b>NET PROFIT</b>   | <b>\$ 30 000</b> |                  |

Property, plant and equipment assets were purchased during the year, but none were sold. Cash drawings were made during the year – Coyne \$2000 and Stewart \$6000. Profits are shared equally.

**Required:**

- Prepare a statement of cash flows for the year ended 30 June 2002.
- Prepare a schedule to reconcile net cash provided by operating activities with operating net profit.



## Solution

A.

**G. COYNE & R. STEWART**  
Statement of Cash Flows  
for the year ended 30 June 2002

|   |                  | Inflows<br>(Outflows)  |
|---|------------------|------------------------|
| <u>Cash flows from operating activities</u> |                  |                        |
| Receipts from customers                     | \$348 000        |                        |
| Payments to suppliers and employees         | <u>(300 200)</u> |                        |
| Net cash provided by operating activities   |                  | \$47 800               |
| <u>Cash flows from investing activities</u> |                  |                        |
| Payment for property, plant and equipment   | <u>(72 000)</u>  |                        |
| Net cash used in investing activities       |                  | (72 000)               |
| <u>Cash flows from financing activities</u> |                  |                        |
| Proceeds from loan                          | 20 000           |                        |
| Repayment of mortgage loan                  | (3 000)          |                        |
| G. Coyne - Drawings                         | (2 000)          |                        |
| R. Stewart - Drawings                       | <u>(6 000)</u>   |                        |
| Net cash provided by financing activities   |                  | <u>9 000</u>           |
| <u>Net increase (decrease) in cash held</u> |                  | (15 200)               |
| Cash at beginning of year                   |                  | <u>49 600</u>          |
| Cash at end of year                         |                  | <u><u>\$34 400</u></u> |

B.

Reconciliation of Net Cash provided by Operating  
Activities to Operating Profit

|   |  |                        |
|---|--|------------------------|
| Operating profit                          |  | \$30 000               |
| Depreciation and amortisation             |  | 16 000                 |
| Change in assets and liabilities          |  |                        |
| Increase in accounts receivable           |  | (6 800)                |
| Decrease in inventories                   |  | 8 400                  |
| Increase in accounts payable              |  | 5 200                  |
| Decrease in accrued expenses              |  | <u>(5 000)</u>         |
| Net cash provided by operating activities |  | <u><u>\$47 800</u></u> |

Workings

|                         |   |           |   |                         |   |                          |
|-------------------------|---|-----------|---|-------------------------|---|--------------------------|
| Received from customers | = | Sales     | + | Begin accounts rec'able | - | Ending accounts rec'able |
| \$348 000               | = | \$354 800 | + | \$60 800                | - | \$67 600                 |

|                                |   |                    |   |              |   |                |   |                     |   |                         |
|--------------------------------|---|--------------------|---|--------------|---|----------------|---|---------------------|---|-------------------------|
| Payments to suppliers of goods | = | Cost of goods sold | - | Begin invent | + | Ending invent. | + | Begin accts payable | - | Ending accounts payable |
| \$212 800                      | = | \$226 400          | - | \$99 200     | + | \$90 800       | + | \$48 400            | - | \$53 600                |

|                       |   |           |   |                         |   |                         |   |                        |   |                         |
|-----------------------|---|-----------|---|-------------------------|---|-------------------------|---|------------------------|---|-------------------------|
| Payments for services | = | Expense   | + | Begin. accrued expenses | - | Ending accrued expenses | - | Begin prepaid expenses | + | Ending prepaid expenses |
| \$87 400              | = | \$82 400* | + | \$7 600                 | - | \$2 600                 | - | 0                      | + | 0                       |

\*\$98 400 – 12 000 (depn) – 4 000 (amortisation of patent)

(continued)



WILEY



## Property, Plant and Equipment

|         |           |                |         |            |                |
|---------|-----------|----------------|---------|------------|----------------|
| 1/7/01  | Balance   | 160 000        | 30/6/02 | Plant sold | nil            |
| 30/6/02 | Purchases | 72 000         | 30/6/02 | Balance    | 232 000        |
|         |           | <u>232 000</u> |         |            | <u>232 000</u> |

## Accum. Depreciation – Property, Plant and Equipment

|         |              |               |         |               |               |
|---------|--------------|---------------|---------|---------------|---------------|
| 30/6/02 | Carry amount |               | 1/7/01  | Balance       | 68 000        |
|         | plant sold   | nil           | 30/6/02 | P & L Summary | 12 000        |
| 30/6/02 | Balance      | 80 000        |         |               |               |
|         |              | <u>80 000</u> |         |               | <u>80 000</u> |

## Accum. Amortisation – Patents

|         |         |              |         |               |              |
|---------|---------|--------------|---------|---------------|--------------|
| 30/6/02 | Balance | 8 000        | 1/7/01  | Balance       | 4 000        |
|         |         |              | 30/6/02 | P & L Summary | 4 000        |
|         |         | <u>8 000</u> |         |               | <u>8 000</u> |

**Problem 19.4** Statement of cash flows – company

The following information is from the records of Brindle Ltd.

| <b>BRINDLE LTD</b>                                    |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Comparative Trial Balances</b>                     |                 |                 |                 |                 |
| as at 30 June   |                 |                 |                 |                 |
|   | 2001            |                 | 2002            |                 |
|   | Debit           | Credit          | Debit           | Credit          |
| Accounts payable                                      |                 | \$ 4 832        |                 | \$ 4 308        |
| Bills payable (trade)                                 |                 | 1 421           |                 | 1 608           |
| Bank overdraft  |                 | 1 390           |                 | 8 432           |
| Provision for income tax                              |                 | 3 000           |                 | 4 000           |
| Share capital   |                 | 30 000          |                 | 45 000          |
| General reserve                                       |                 | 5 000           |                 | 7 500           |
| Retained profits                                      |                 | 4 382           |                 | 5 471           |
| Petty cash  | \$ 25           |                 | \$ 25           |                 |
| Accounts receivable                                   | 5 781           |                 | 10 432          |                 |
| Allowance for doubtful debts                          |                 | 500             |                 | 1 000           |
| Bills receivable (trade)                              | 756             |                 | 543             |                 |
| Inventory   | 18 258          |                 | 30 289          |                 |
| Plant and machinery                                   | 24 900          |                 | 39 200          |                 |
| Accumulated depreciation –<br>plant and machinery     |                 | 2 745           |                 | 5 570           |
| Furniture and equipment                               | 5 000           |                 | 3 900           |                 |
| Accumulated depreciation –<br>furniture and equipment |                 | 1 450           |                 | 1 500           |
|   | <u>\$54 720</u> | <u>\$54 720</u> | <u>\$84 389</u> | <u>\$84 389</u> |

(continued)



**BRINDLE LTD**  
**Statement of Financial Performance**  
for the year ended 30 June 2002

|                                    |          |               |
|------------------------------------|----------|---------------|
| <b>OPERATING REVENUE</b>           |          |               |
| Sales revenue                      |          | \$ 100 000    |
| Proceeds from sale of furniture    |          | 950           |
|                                    |          | 100 950       |
| <b>EXPENSES</b>                    |          |               |
| Cost of goods sold                 | \$35 000 |               |
| Carrying amount of furniture sold  | 900      |               |
| Depreciation expense               | 3 075    |               |
| Bad debts expense                  | 1 700    |               |
| Other expenses                     | 49 943   |               |
|                                    |          | 90 618        |
| <b>OPERATING PROFIT BEFORE TAX</b> |          | <b>10 332</b> |
| Income tax expense:                |          |               |
| Current year                       | 4 000    |               |
| Overprovision from prior period    | (1 257)  |               |
|                                    |          | 2 743         |
| <b>OPERATING PROFIT AFTER TAX</b>  |          | <b>7 589</b>  |
| Retained profits at 1/7/01         |          | 4 382         |
| Total available for appropriation  |          | 11 971        |
| Dividends paid                     | 4 000    |               |
| Transfer to reserves               | 2 500    |               |
|                                    |          | 6 500         |
| Retained profits at 30/6/02        |          | \$ 5 471      |

*Additional information*

1. The company is a small company for tax purposes.
2. Office furniture which had originally cost \$1100 and had accumulated depreciation of \$200 was sold during the year for \$950 cash.
3. Plant and machinery costing \$5000 was paid for by the issue of 5000 shares at a price of \$1 each.

**Required:**

Prepare a statement of cash flows in accordance with AASB 1026. Also show any notes to the statement that are necessary.



## Solution

**BRINDLE LTD**  
Statement of Cash Flows  
for the financial year ended 30 June 2002

|  |                | Inflows<br>(Outflows)   |
|--|----------------|-------------------------|
| <u>Cash flows from operating activities</u>      |                |                         |
| Receipts from customers                          | \$94 362       |                         |
| Payments to suppliers and employees              | (97 311)       |                         |
| Income tax paid                                  | <u>(1 743)</u> |                         |
| Net cash provided by operating activities        |                | \$(4 692)               |
| <u>Cash flows from investing activities</u>      |                |                         |
| Payment for plant and machinery                  | (9 300)        |                         |
| Proceeds from sale of furniture                  | <u>950</u>     |                         |
| Net cash used in investing activities            |                | (8 350)                 |
| <u>Cash flows from financing activities</u>      |                |                         |
| Proceeds from issue of shares                    | 10 000         |                         |
| Dividends paid                                   | <u>(4 000)</u> |                         |
| Net cash provided by financing activities        |                | <u>6 000</u>            |
| <u>Net increase (decrease) in cash held</u>      |                | (7 042)                 |
| Cash at beginning of year (o/draft - petty cash) |                | <u>(1 365)</u>          |
| Cash at end of year                              |                | <u><u>\$(8 407)</u></u> |

**Note 1: Reconciliation of Cash**

|                | 2001                    | 2002                    |
|----------------|-------------------------|-------------------------|
| Petty Cash     | \$25                    | \$25                    |
| Bank overdraft | <u>(1 390)</u>          | <u>(8 432)</u>          |
|                | <u><u>\$(1 365)</u></u> | <u><u>\$(8 407)</u></u> |

**Note 2: Reconciliation of Net Cash provided by Operating**

|   |  |                         |
|---|--|-------------------------|
| Activities to Operating Profit after Income Tax |  |                         |
| Operating profit after income tax               |  | \$7 589                 |
| Depreciation                                    |  | 3 075                   |
| Provision for doubtful debts                    |  | 500                     |
| Proceeds from sale of furniture                 |  | (950)                   |
| Carrying amount of furniture sold               |  | 900                     |
| Provision for income tax                        |  | 1 000                   |
| Change in assets and liabilities                |  |                         |
| Increase in trade debtors                       |  | (4 651)                 |
| Decrease in bills receivable                    |  | 213                     |
| Increase in inventories                         |  | (12 031)                |
| Decrease in trade creditors                     |  | (524)                   |
| Increase in bills payable                       |  | <u>187</u>              |
| Net cash used in operating activities           |  | <u><u>\$(4 692)</u></u> |

**Note 3: Non-cash Financing and Investing Activities**

(a) Plant and Machinery

During the reporting period, plant and machinery was purchased and paid for by the issue of 5000 shares at a price of \$1.

*(continued)*



Workings

|                         |             |                           |                            |                        |                         |             |
|-------------------------|-------------|---------------------------|----------------------------|------------------------|-------------------------|-------------|
| Received from customers | = Sales     | + Begin accounts rec'able | - Ending accounts rec'able | + Begin bills rec'able | - Ending bills rec'able | - Bad debts |
| \$94 362                | = \$100 000 | + \$5 781                 | - \$10 432                 | + \$756                | - \$543                 | - \$1 200   |

|                                |                      |                    |                  |                       |                        |
|--------------------------------|----------------------|--------------------|------------------|-----------------------|------------------------|
| Payments to suppliers of goods | = Cost of goods sold | - Begin invent     | + Ending invent. | + Begin accts payable | - Ending accts payable |
| \$47 368                       | = \$35 000           | - \$18 258         | + \$30 289       | + \$4 832             | - \$4 308              |
|                                | + Begin bills pay    | - Ending bills pay |                  |                       |                        |
|                                | + \$1 421            | - \$1 608          |                  |                       |                        |

|                       |            |                           |                           |                          |                           |
|-----------------------|------------|---------------------------|---------------------------|--------------------------|---------------------------|
| Payments for services | = Expense  | + Begin. accrued expenses | - Ending accrued expenses | - Begin prepaid expenses | + Ending prepaid expenses |
| \$49 943              | = \$49 943 | + 0                       | - 0                       | - 0                      | + 0                       |

## Plant and Machinery

|         |                    |                 |         |         |                 |
|---------|--------------------|-----------------|---------|---------|-----------------|
| 1/7/01  | Balance            | 24 900          |         |         |                 |
| 30/6/02 | Purchases          | 9 300           |         |         |                 |
| 30/6/02 | Purchases - shares | 5 000           | 30/6/02 | Balance | 39 200          |
|         |                    | <u>\$39 200</u> |         |         | <u>\$39 200</u> |

## Furniture

|        |         |                |         |                |                |
|--------|---------|----------------|---------|----------------|----------------|
| 1/7/01 | Balance | 5 000          | 30/6/02 | Carry amount   |                |
|        |         |                |         | furniture sold | 1 100          |
|        |         |                | 30/6/02 | Balance        | 3 900          |
|        |         | <u>\$5 000</u> |         |                | <u>\$5 000</u> |

## Accum. Depreciation – Furniture

|         |                |                |         |               |                |
|---------|----------------|----------------|---------|---------------|----------------|
| 30/6/02 | Carry amount   |                | 1/7/01  | Balance       | 1 450          |
|         | furniture sold | 200            |         |               |                |
| 30/6/02 | Balance        | 1 500          | 30/6/02 | P & L Summary | 250            |
|         |                | <u>\$1 700</u> |         |               | <u>\$1 700</u> |

## Provision for Income Tax

|         |               |                |         |         |                |
|---------|---------------|----------------|---------|---------|----------------|
| 30/6/02 | Tax paid      | 1 743          | 1/7/01  | Balance | 3 000          |
| 30/6/02 | Overprovision | 1 257          |         |         |                |
|         |               | <u>\$3 000</u> |         |         | <u>\$3 000</u> |
|         |               |                | 30/6/02 | Balance | 4 000          |

(continued)

## Share Capital

|         |         |               |         |               |               |
|---------|---------|---------------|---------|---------------|---------------|
| 30/6/02 | Balance | 45 000        | 1/7/01  | Balance       | 30 000        |
|         |         |               | 30/6/02 | Issue - plant | 5 000         |
|         |         |               | 30/6/02 | Issue - cash  | 10 000        |
|         |         | <u>45 000</u> |         |               | <u>45 000</u> |

## Retained Profits

|         |                 |               |         |                   |               |
|---------|-----------------|---------------|---------|-------------------|---------------|
| 30/6/02 | Dividend paid   | 4 000         | 1/7/01  | Balance           | 4 382         |
| 30/6/02 | General reserve | 2 500         | 30/6/02 | Op prof after tax | 7 589         |
| 30/6/02 | Balance         | 5 471         |         |                   |               |
|         |                 | <u>11 971</u> |         |                   | <u>11 971</u> |

### Problem 19.5 Net cash flow from operating activities – government

The information below relates to the Shire of Redbank.

| SHIRE OF REDBANK<br>Operating Statement<br>for the year ended 30 June 2003 |                |
|--|----------------|
|  | \$000          |
| <b>OPERATING REVENUES</b>  |                |
| Rates and user charges   | \$ 5315        |
| Interest revenue   | 278            |
| Other (all cash)   | 147            |
|  | <u>5740</u>    |
| <b>OPERATING EXPENSES</b>  |                |
| Employee costs   | 2348           |
| Depreciation expense   | 1603           |
| Interest expense   | 550            |
| Materials and contracts expense  | 1242           |
| Supplies expense   | 28             |
|  | <u>5771</u>    |
| <b>OPERATING PROFIT (LOSS)</b>   | <u>\$ (31)</u> |

#### Additional information

- Supplies (classified as 'other current assets') were bought for cash during the year for \$37 000.
- Rates for \$221 000 were prepaid on 31 October 2002 for a year. Prepaid rates are classified as part of 'other current liabilities'. There were no pre-paid rates at 1 July 2002.
- Materials and contracts expense payable to creditors will not be paid until next year.

*(continued)*



**SHIRE OF REDBANK**  
**Comparative Statements of Financial Position**

|                                      | 2003<br>(\$000) | 2002<br>(\$000) |
|--------------------------------------|-----------------|-----------------|
| <b>CURRENT ASSETS</b>                |                 |                 |
| Cash                                 | \$ 1 056        | \$ 538          |
| Rates receivable                     | 1 049           | 1 023           |
| Interest receivable                  | 101             | 53              |
| Other (including supplies)           | 166             | 129             |
| <b>TOTAL CURRENT ASSETS</b>          | <u>2 372</u>    | <u>1 743</u>    |
| <b>CURRENT LIABILITIES</b>           |                 |                 |
| Creditors                            | 892             | 798             |
| Wages payable                        | 136             | 225             |
| Interest payable                     | 127             | 90              |
| Other (including prepaid rates)      | 152             | 170             |
| <b>TOTAL CURRENT LIABILITIES</b>     | <u>1 307</u>    | <u>1 283</u>    |
| <b>NET CURRENT ASSETS</b>            | <u>1 065</u>    | <u>460</u>      |
| <b>NON-CURRENT ASSETS</b>            |                 |                 |
| Land                                 | 1 497           | 1 267           |
| Bills receivable                     | 564             | 685             |
| Plant and equipment                  | 1 780           | 2 289           |
| Other                                | 9 924           | 9 683           |
| <b>TOTAL NON-CURRENT ASSETS</b>      | <u>13 765</u>   | <u>13 924</u>   |
| <b>NON-CURRENT LIABILITIES</b>       |                 |                 |
| Creditors                            | 656             | 819             |
| Bills payable                        | 931             | 1 047           |
| Loans                                | 1 585           | 2 045           |
| Other                                | 3 073           | 2 831           |
| <b>TOTAL NON-CURRENT LIABILITIES</b> | <u>6 245</u>    | <u>6 742</u>    |
| <b>NET ASSETS</b>                    | <u>\$ 8 585</u> | <u>\$ 7 642</u> |
| <b>EQUITY</b>                        |                 |                 |
| Accumulated surplus                  | \$ 6 821        | \$ 6 003        |
| Reserves                             | 1 764           | 1 639           |
| <b>TOTAL EQUITY</b>                  | <u>\$ 8 585</u> | <u>\$ 7 642</u> |

**Required:**

Prepare a schedule to show the net cash flow provided by operating activities for the year ended 30 June 2003.





## Solution

### SHIRE OF REDBANK

#### Schedule of Cash Flows from Operating Activities for year ended June 2003

|   |                |     |
|---|----------------|-----|
| Cash Flows from operating activities      | (\$'000)       |     |
| Rates and User charges                    | 5 363          | [1] |
| Interest received                         | 230            | [2] |
| Other receipts                            | 147            | [3] |
| Employee entitlements paid                | (2 437)        | [4] |
| Materials and contracts expenses paid     | (1 148)        | [5] |
| Borrowing costs                           | (513)          | [6] |
| Other payments (supplies)                 | <u>(37)</u>    | [7] |
| Net Cash Inflow from operating activities | <u>\$1 605</u> |     |

[1] Accrual revenue + Begin rates receivable – Ending rates receivable – Begin prepaid rates + Ending prepaid rates  
 $= \$5\,315 + \$1\,023 - \$1\,049 - 0 + (221 \times 4/12)$   
 $= \$5\,363.$

[2] Accrual interest + begin int. receivable – Ending int. rec'able  
 $= \$278 + \$53 - \$101$   
 $= \$230$

[3] Given

[4] Accrual employee costs + Begin wages payable – Ending wages payable  
 $= \$2\,348 + 225 - 136$   
 $= \$2\,437$

[5] Accrual materials and contracts + Begin creditors – Ending creditors  
 $= \$1\,242 + 798 - 892$   
 $= \$1\,148$

[6] Accrual Int. Expense + Begin interest payable – Ending interest payable  
 $= \$550 + 90 - 127$   
 $= \$513$

[7] Given – supplies paid for

