

CHAPTER 24

Statement of cash flows

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ADDITIONAL PROBLEMS

Problem 24.1 Simple statement of cash flows

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

J. BLACK Statements of Financial Position as at 30 June				
	2002		2003	
CURRENT ASSETS				
Cash at bank		—		\$ 2 750
Sundry debtors		\$ 3 300		5 500
Inventory		39 600		41 250
NON-CURRENT ASSETS				
Equipment	\$13 750		\$19 250	
Accumulated depreciation	2 750	11 000	2 750	16 500
Freehold property		27 500		55 000
		<u>\$81 400</u>		<u>\$121 000</u>
LIABILITIES AND OWNER'S EQUITY				
Sundry creditors		\$ 6 050		\$ 4 400
Bank overdraft		2 200		—
Mortgage payable		—		22 000
J. Black, Capital		73 150		94 600
		<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
Less: 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 (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		31 900
Cash at beginning of year		<u>(2 200)</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><u>\$3 850</u></u>			<u><u>\$3 850</u></u>



Problem 24.2 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 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 Statement of Financial Performance for the year ended 30 June 2003		
REVENUE		
Sales revenue		\$ 48 000
Proceeds from sale of land		22 400
Proceeds from sale of plant		<u>1 920</u>
		72 320
EXPENSES		
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>
OPERATING PROFIT		<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 (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 & 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 & 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 OperatingActivities 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 24.3 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:

G. COYNE & R. STEWART Comparative Statements of Financial Position and Statement of Financial Performance		
	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)
TOTAL ASSETS	\$368 800	\$329 600
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
TOTAL LIABILITIES AND EQUITY	\$368 800	\$329 600
Sales	\$354 800	
Less: Cost of goods sold	226 400	
GROSS PROFIT	128 400	
Operating expenses (including depreciation expense and patent amortisation expense)	98 400	
NET PROFIT	\$ 30 000	

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 (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)



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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 24.4 Statement of cash flows – company

The following information is from the records of Brindle Ltd.

BRINDLE LTD Comparative Trial Balances 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 – plant and machinery		2 745		5 570
Furniture and equipment	5 000		3 900	
Accumulated depreciation – 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

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

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 (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		6 000
<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)



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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
	0					

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 24.5 Net cash flow from operating activities – government

The information below relates to the Shire of Redbank.

SHIRE OF REDBANK Operating Statement for the year ended 30 June 2003	
	\$000
OPERATING REVENUES	
Rates and user charges	\$ 5315
Interest revenue	278
Other (all cash)	147
	<u>5740</u>
OPERATING EXPENSES	
Employee costs	2348
Depreciation expense	1603
Interest expense	550
Materials and contracts expense	1242
Supplies expense	28
	<u>5771</u>
OPERATING PROFIT (LOSS)	<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 (\$000)	2002 (\$000)
CURRENT ASSETS		
Cash	\$ 1 056	\$ 538
Rates receivable	1 049	1 023
Interest receivable	101	53
Other (including supplies)	166	129
TOTAL CURRENT ASSETS	<u>2 372</u>	<u>1 743</u>
CURRENT LIABILITIES		
Creditors	892	798
Wages payable	136	225
Interest payable	127	90
Other (including prepaid rates)	152	170
TOTAL CURRENT LIABILITIES	<u>1 307</u>	<u>1 283</u>
NET CURRENT ASSETS	<u>1 065</u>	<u>460</u>
NON-CURRENT ASSETS		
Land	1 497	1 267
Bills receivable	564	685
Plant and equipment	1 780	2 289
Other	9 924	9 683
TOTAL NON-CURRENT ASSETS	<u>13 765</u>	<u>13 924</u>
NON-CURRENT LIABILITIES		
Creditors	656	819
Bills payable	931	1 047
Loans	1 585	2 045
Other	3 073	2 831
TOTAL NON-CURRENT LIABILITIES	<u>6 245</u>	<u>6 742</u>
NET ASSETS	<u>\$ 8 585</u>	<u>\$ 7 642</u>
EQUITY		
Accumulated surplus	\$ 6 821	\$ 6 003
Reserves	1 764	1 639
TOTAL EQUITY	<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)	(37)	[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