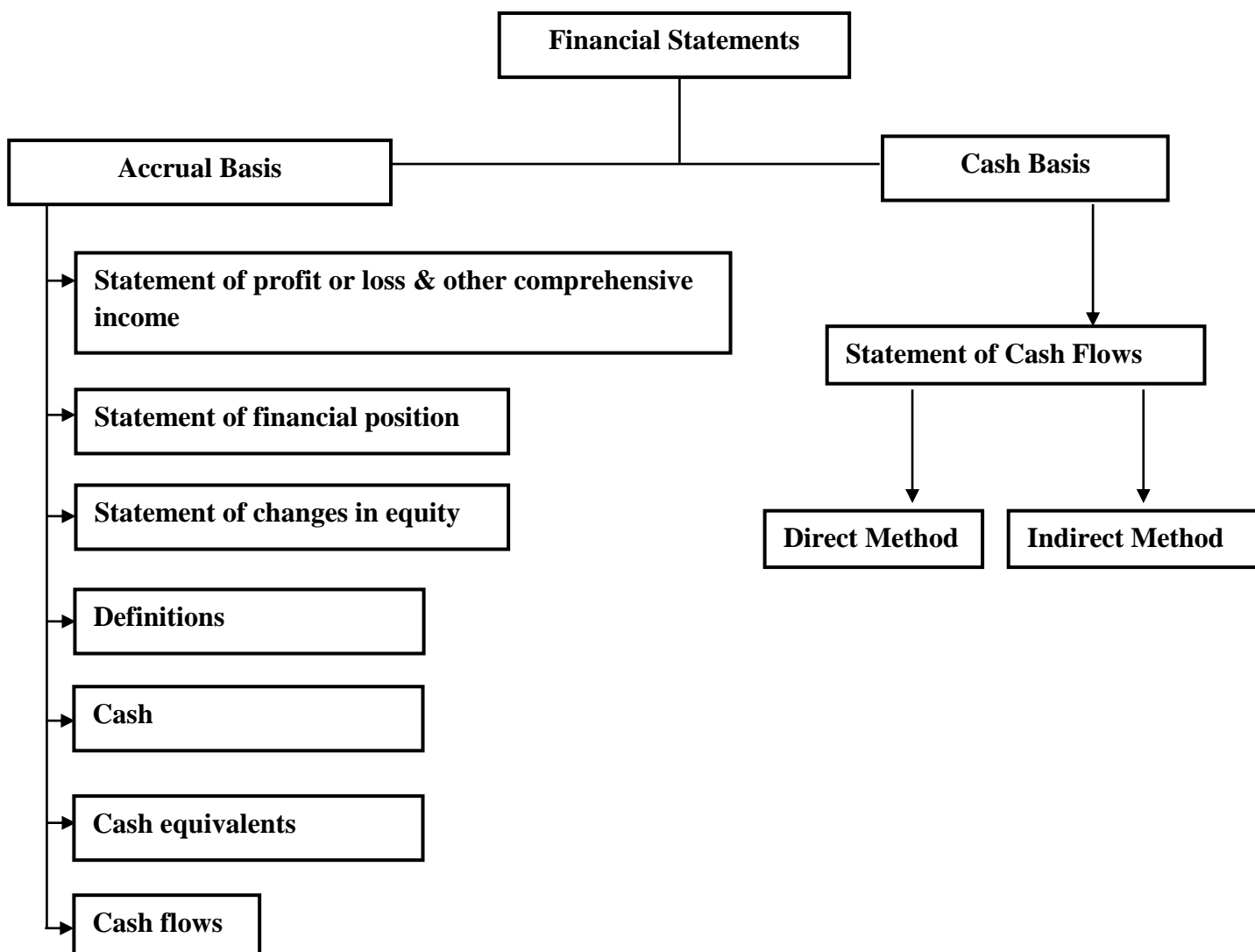


Prepare Statement of Cash flows of a limited liability company

Learning Outcomes :

- Explains statement of Cash flows as per the applied accounting standard.
- Explains operating Activities
- Explains investing activities
- Explains financing activities
- Prepares statement of cash flows by applying accounting standard

▪ Session Guide



▪ Introduction / Objectives

Provision of information about the changes in cash and cash equivalents of an entity for a concerned period by means of a statement of cash flows which classifies cash flows during the period generated from or used in operating, investing and financing activities..

Statement of cash flow presents the sources of cash generated and sources of cash used by a business within a period concerned.

Important facts about the definitions given in accounting standard.

Cash

Cash comprises cash in hand and demand deposits.

Ex. Cash balance, Petty cash balance.

Cash equivalents

Short term, highly liquid investments that are readily convertible to known amounts of cash which are subjected to a significant risk of changes in value.

Example : 3 months Treasury bills

Cash Flows

Receipts are known as cash inflows and payments are known as cash outflows

Operating Activities

Cash flows from the principal revenue producing activities of the entity and other activities that are not investing or financing activities.

Examples

- Receipts from selling goods or services
- payments to suppliers for providing goods or services
- Payment of salaries and others for employees.
- Receipts from insurance compensation and payments for insurance premium.
- Any other cash flow which can not be identified as investing or financing activities

Investing Activities :

Investing activities means expenditures have been made for resources intended to generate future income and cash flows. It includes acquisition and disposal of long term assets for future business developments.

Example :

- Cash payments to acquire, construct or capitalization development cost relating to property, plant and equipment, intangibles and other long term assets.
- Cash receipts from sale of property, plant and equipment, intangibles and other long term assets.

- Cash payments to acquire equity or debt instruments of other entities, investments in joint ventures and cash receipts from sale of those investments.
- Cash advances and loans made to other parties and cash receipts from the repayments.
- Interest received, dividend received, rent received.

Financing Activities:

Financing activities means the cash flows which make changes in composition of equity capital and debt capital of a business. They are connected with the ways of capital raising of a business.

Example

- Proceeds from issuing shares or other equity instruments.
- Payments to owners to acquire or redeem shares.
- Proceeds from issuing debentures and long term loans or repayment of amount borrowed.
- Payment of lease installments. (Except interest)
- Payment of dividends for shareholders (Distribution among owners).

Reporting of cash flows

Two methods are available to report cash flows for concerned period as

- Direct method
 - Indirect method
- Both methods can be applied to calculate cash flows from operating activities. Cash flows from investing and financing activities can be calculated only by using direct method.
 - All gross cash receipts and gross cash payments are disclosed through the direct method.; where by profit or loss is adjusted for the effect of transactions of non-cash nature, changes in working capital to calculate operating cash flows under indirect method.
 - Cash flows relating to income and expenses which are used to calculate net profit are considered when reporting operating cash flows under direct method.
 - Under indirect method, the net cash flow from operating activities is determined by removing the effect of non-cash items from profit before tax. Further items that to be categorized under other activities and changes in working capital to be adjusted.

This calculation can be explained further using following table.

Direct Method	Indirect Method
<ul style="list-style-type: none"> Record the cash receipts and cash payments for operating activities. <p>Example</p> <ul style="list-style-type: none"> Cash purchases / Cash sales Creditor payments/ debtor receipts. Commission received/ Interest and other receipts Cash payments for operating expenses Tax payments Interest payment 	<p>Following to be adjusted by taking the profit / loss before tax for the period as the base.</p> <ul style="list-style-type: none"> Non – monetary transactions / items) <p>Example :</p> <ul style="list-style-type: none"> Depreciation, Loss on disposal of PPE interest expenses to be added back Income which is to be considered under other activities to be deducted. <p>Example : Interest income</p> <p>Dividend income</p> <ul style="list-style-type: none"> Adjustment for working capital changes including Accruals and Pre payments. Tax payment Interest payment

Format

Direct Method

.....**Business**

Statement of cash flows for the year ended

(Rs.)

Operating Activities		
Cash sales	xxx	
Debtor receipts	xxx	
Cash purchase	(xx)	
Payments to suppliers	(xx)	
Cash payment for administration expenses	(xx)	
Cash payment for distribution expenses	(xxx)	
Cash payment for other operating expenses	(xx)	
Cash generated from / used in operating activities	xx	
Interest paid	(xx)	
Tax paid	(xx)	
Net cash flows generated from / used in operating Activities		xx
Investing Activities		
Received cash from disposal of property, plant and Equipment	xxx	
Received cash from selling other Non-current Assets	xx	
Loan provided to employees	(xx)	
Dividend received	xx	
Interest received	xx	
Rent received	xx	
Purchase of property, plant and equipment	(xx)	
purchase of other non-current assets	(xx)	
Net cash flows generated from/used in investing activities		xx
Financing Activities		
Share issue	xx	
Loan obtaining	xx	
Other Long term loan obtaining	xx	
Dividend paid	(xx)	
Distribution among share holders	(xx)	
Repayment of loan	(xx)	
Loan installment paid	(xx)	
Lease installment paid (Except interest)	(xx)	
Net cash flow generated from / used in financial activities		xxx
Net increase / decrease in cash and cash equivalents		xxx
Opening cash and cash equivalents		xxx
Closing cash and cash equivalents		xxx

Operating cash flow (Generated from / used in) Using Indirect Method

.....Business

Statement of cash flows for the year ended

(Rs.'000)

Operating Activities		
Profit Before Tax	xx	
Adjustments		
Depreciation of property plant and equipment	xxx	
Loss on disposal of property plant and equipment	xxx	
Profit on disposal of property plant and equipment	(xxx)	
Interest expense	xx	
Interest income, rent income, Dividend income	(xxx)	
Operating profit before working capital changes.	xx	
Changes in inventories(Difference between opening and closing balance)		
Changes in Trade receivables (Difference between opening and closing balance)	x/(x)	
Changes in prepaid expenses (Difference between opening and closing balance)	x/(x)	
Changes in Trade payables (Difference between opening and closing balance)	x/(x)	
Changes in accrued expenses (Difference between opening and closing balance)	x/(x)	
Cash generated from / used in operating activities	x	
Interest paid	(x)	
Tax paid	(x)	
Net cash flow generated from / used in operating activities		xx

Example 01

Recognize the following items referring LKAS 7. State whether the items are cash and cash equivalent in the space provided.

Petty cash balance
Cash balance (favourable)
Investment (2 years)
Treasury Bills (3 months)
Fixed Deposit (1 year)

Example 02

Put a (✓) in the suitable column to categorize following items according to the cash flow categorization in LKAS – 7 using direct method.

Items	Operating	Investing	Financing
Cash and cheque received from trade debtors			
Salaries and wages paid for employees.			
Income tax payment			
Dividend payment			
Rent received for business place			
Lease installment payment (except interest)			
Capitalization of reserves			
Purchase of machine for business use			
Cheque payments for trade creditors			
Proceeds from selling used office equipment			
Loan interest paid			
Cash collection from right issue			
Obtaining a bank loan			
Payment of audit fee			
Receipt of fixed deposit interest			
Repayment of Bank loan			
Purchase of property, plant and equipment			
Electricity and insurance payment			
Purchase of Long-term investments			
Cash sales			
Cash purchases			

Example 03

Following cash control account was prepared by Newway PLC for the year ended 31.03.2017

Newway PLC
Cash Control a/c for the year ended 31/03/2017

(Rs.'000)

Balance B/F a 01.04.2016	1500	Cash purchases	2 000
Cash sales	4 000	Creditor payments	3 500
Debtor receipt	7500	Expenses	
		Adminstration expenses paid	2 000
Income		Distribution expense paid	1 200
Dividend for invetsment	400	Loan interest paid	1 000
Rent Income	200	Other payments	
Other receipts		Income tax paid	2 000
Disposing a land	5 500	Purchase of motor vehicle	4 500
Ordinary Share Issue	3 000	Purchase of furniture & office equipment	1 500
Bank loan obtained	2 000	Lease repayment	1 000
Collection from right issue	1 000	Loan installment and payment	2 800
		Dividend paid	2 400
		Balance C/d 31.3.2017	1200
	25 100		25 100
01.04.2017 Balance B/F	1200		

Note : Lease interest of Rs. 500 was included in paid lease installment

Required :

Prepare statement of cash flow for the year ended 31.3.2017 of Newway PLC by applying direct approach according to LKAS - 7

Example 04

(1) Calculate profit before tax using the fact extracted from Dinidu PLC

Retained earnings Balance as at 01.04.2016	4 000
Transactions occurred during 31.03.2017	
Dividend payment for ordinary share holdres	500
Proposed dividend for ordinary share holdres	400
Collection from right issue	2 000
Capitalization of reserves	1 000
Transfers to general reserves	1 500
Income tax payments	1 200
Income tax expense for the year	1 600
Retained earnings as at 31.3.2017	5 400

(2) State the correct adjustment relating to items given below when calculating operating cash flows using indirect method according to LKAS-07.

Item	Adjustment to be done		
	add	Less	Not to be adjusted
Deprecation of PPE			
Dividend income			
Proceeds from disposal of motor vehicle used for administration activities			
Interest expense			
Receipts from debtors			
Income tax paid			
Income tax expense			
Interest paid			

(3) Current assets and current liabilities available in Sankapala PLC as at 31.03.2017 given below. State the way of recording the effect as add (+) or less (-) when calculating operating cash flow using indirect method.

Item	31.03.2016	31.03.2017	Adjustment
Closing stocks	2 000	3 000	
Prepaid expenses	500	300	
Treade debtors	3 500	3 000	
Trade creditors	1 200	1 700	
Accrued operating expenses	700	300	

Example 05

- (1) Mudalindu PLC started its operations on 01.04.2016. Financial statements of first year given below.

Mudalindu PLC Statement of Profit or loss for the year ended 31.03.2017

(Rs.'000)		
Sales		9 500
Cost of sales		(4 500)
Gross profit		5 000
Other Income		500
		5500
Dsitribution expenses	1 400	
Administration expenses	1 600	
Finance expenses	400	(3 400)
Profit Before Tax		2 100
Income Tax		(600)
Profit for the period		1 500

Mudalindu PLC
Statement of Finance Position
as at 31.03.2017

	(Rs.000)
Property plant and equipment	7 000
Investments (Shanthi PLC)	2 000
Inventories	1 500
Trade and other receivables	4 000
Bank balance	1 000
Total Assets	15 500
Equity and Liabilities	
Stated capital - ordinary shares (@Rs.90-100 shares)	9 000
Retained earnings	1 000
10% Bank loan (2016.04.01)	3 000
Trade and other payables	2250
Accured Interest	150
Tax Payables	100
Total Equity and Liabilities	15 500

Other Information :

- (i) Mudalindu PLC engages purchase and sales on credit terms. Trade & other receivable balance represent trade debtors and trade & other payable balance represent trade creditors.
- (ii) Rs. 100 000 out of finance expenses in statement of profit or loss was bank charges, remaining were interest for bank loan.
- (iii) Composition of property plant and equipment given are below.

Asset	Cost	Accumulated Depreciation	Carrying Amount
Machines	2 400	400	2 000
Motor vehicles	3 000	600	2 400
Land	2 600	-	2 600
	8 000	1 000	7 000

All property plant and equipment items were purchased on cash.

- (iv) Other income consist of dividend collected for investments.
- (v) Dividends were not paid by the company with in the year.

Required :

1. Statement of cash flows (as per LKAS 7)
 - Prepare statement of cash flows using direct method to calculate the cash flows from operating activities.
 - Prepare statement of cash flows using indirect method to calculate cash flows from operating activities.
2. State two items which cannot be considered as cash flow.

Example 06

Following information is provided for sanath plc

Sanath PLC
Statement of profit or loss for the year ended 31.03.2017

			(Rs.'000)
	Note	Amount	Amount
Sales			20 000
Cost of sales			(8 000)
Gross profit			12 000
Other income			400
			12 400
Distribution cost		2 300	
Administration expenses		2 700	
Finance expenses		1 000	
Other expenses		400	(6 400)
Profit Before Tax			6 000
Income Tax			(1 500)
Profit for the year			4 500
Other comprehensive income			
Surplus on land Revaluation			2 500
Total Comprehensive Income			7 000

Sanath PLC

Statement of Financial Position as at 31.03.2017 and 31.03.2016

(Rs.'000)

Asset	Note	Amount 2017.03.31	Amount 2016.03.31
Non current asset			
Property, plant and equipment		18 000	15 300
Investment		2 000	1 000
Current assets			
Closing Inventory		2 200	1 000
Trade Reveivables		2 500	1 500
Treasury bills (03 months)		500	-
Cash		1 700	200
Total Assets		26 900	19 000
Equity & Liabilities			
Stated capital			
Ordinary shares		13 000	8 000
Reserves			
Revaluation reserves		4 000	1 500
General reserves		2 500	2 000
Retained earnings		5 200	4 200
Non-current liabilities			
Bank loan		1 700	2 600
Current liabilities			
Trade Payables		500	700
Total Equity and Liabilities		26 900	19 000

Sanath PLC

Statement of changes in Equity for the year ended 31.03.2017

(Rs.'000)

Description	Ordinary shares	Revaluation Reserves	General Reserve	Retained earnings	Total
Balance at 01.04.2016	8 000	1 500	2 000	4 200	15 700
Share issue	1 000	-	-	-	1 000
Right issue	2 000	-	-	-	2 000
Reserve capitalization	2 000	-	-	(2 000)	-
Total comprehensive Income	-	2 500	-	4 500	7 000
Dividend paid	-	-	-	(1 000)	(1 000)
Tranfer to General reserves	-	-	500	(500)	-
Balance at 31.03.2017	13 000	4 000	2 500	5 200	24 700

Additional Information :

1. Interest for bank loan was included under finance expenses.
2. All purchases and sales were on credit term.
3. During the year, equipment cost, Rs, 1000 000 was sold with a profit of Rs. 400 000.
4. Stock as at 31.03.2017 at cost was Rs. 2600 000. Net reliable value of it was estimated as Rs. 2200 000. Stock written of Rs. 400 000 was included under other expenses.

Sanath PLC
Property, Plant and Equipment

(Rs.'000)

Description	Land	Buildings	Motor vehicles	Equipments	Total
Balance at 01.04.2016	4 500	5 800	1 200	5 700	17 200
Additions	-	-	2 000	-	2 000
Disposal	-	-	-	(1 000)	(1 000)
Revaluations	2 500	-	-	-	2 500
Balance as at 31.03.2017	7 000	5 800	3 200	4 700	20 700
Accumulated Depreciation					
Balance as at 01.04.2016	-	800	300	800	1 900
Depreciation expense	-	400	500	300	1 200
Disposal	-	-	-	(400)	(400)
Balance as at 31.03.2017	-	(1 200)	(800)	(700)	(2 700)
Carrying Amount	7 000	4 600	2 400	4 000	18 000

Required :

Prepare

1. Statement of cash flows using direct method as per LKAS 07
 2. Operating cash flows using indirect method as per LKAS 07
- By referring the financial statements of Sanath PLC

☛ ADVANCE LEVEL – 2013

The summarized financial statements of Kumudu PLC are given below.

Kumudu PLC

Income Statement for the year ending 31.03.2013

	Rs. '000
Sales	7 200
Cost of sales	(4 200)
Gross profit	<u>3 000</u>
Gain on sale of land	300
Depreciation – Building	500
Depreciation – Office equipment	800
Other expenses	1 000
Profit before tax	<u>(2 300)</u>
Income tax	<u>1 000</u>
Profit for the year	<u>(300)</u>
	<u>700</u>

Kumudu PLC

Income Statement for the year ending 31.03.2013

	Rs. '000	
	2013	2012
Land	5 000	9 000
Building at cost	10 000	10 000
Accumulated depreciation – Building	(5 000)	(4 500)
Office Equipment at cost	8 000	4 000
Accumulated depreciation – Office equipment	(2 400)	(1 600)
Inventory	1 400	1 000
Trade debtors	1 500	1 200
Cash at bank	1 500	500
	<u>20 000</u>	<u>19 600</u>
Stated ordinary share capital	14 000	13 000
Retained earnings	4 200	4 000
Trade creditors	1 500	2 000
Income tax payable	300	600
	<u>20 000</u>	<u>19 600</u>

Additional information:

- All purchases and sales are made on credit basis.
- On 01-04-2012 the company issued 10 000 shares for Rs. 1 000 000.
- Part of the land was sold for Rs. 4 300 000 on cash.
- On 31-03-2013, office equipment of Rs. 4 000 000 was bought on cash.
- An interim dividend of Rs. 500 000 was paid during the year.

Required:

Statement of Cash Flows Kumudu PLC for the year ending 31.03.2013, according to the relevant Sri Lanka Accounting Standard.

ADVANCE LEVEL – 2014

Sathsara PLC commenced operations on 01.04.2013 and its summarized financial statements for the first year of operations are given below.

Income Statement for the year ending 31.03.2014 (Rs. '000)

Sales	6 250
Cost of sales	(2 850)
Gross profit	3 400
Expenses	(2 500)
Profit before tax	900
Income tax for the year	(300)
Profit for the year	600
Total comprehensive income for the year	600

Statement of Financial Position as at 31.03.2014 (Rs. '000)

Property, plant and equipment at carrying amount	6 000
Inventory	1 500
Trade receivables (trade debtors)	4 000
Cash at bank	1 000
	12 500
Ordinary share capital(100 000 shares each at Rs.70/-)	7 000
Retained earnings	500
12% bank loan (obtained on 01.04.2013 for 5 years)	2 500
Trade payable (trade creditors)	2 150
Income tax payable	200
Interest payable	150
	12 500

Additional information

- (i) All purchases and sales have been made on credit basis.
- (ii) Property, plant and equipment was purchased on cash and depreciated as follows. This depreciation is included in expenses.

Asset	Depreciation For the year	Carrying Amount as at 31.03.2014
Motor vehicles	400 000	3 600 000
Office equipment	600 000	2 400 000
	1 000 000	6 000 000

- (iii) The expenses also include the interest on bank loan. However, only the half of this interest has been paid during the year.

- (iv) The company has paid an interim dividend during the year.

Required:

Statement of Cash Flows of Sathsara PLC for the year ending 31.03.2014, according to the Sri Lanka Accounting Standard 7 (Statements of Cash Flows)

ADVANCE LEVEL – 2015

The summarized Statements of Financial Positions of Sumudu PLC as at 31.03.2015 and 31.03.2014 are given below.

	Rs. '000	
	2015	2014
Property, plant and equipment (PPE) – at cost	19 600	13 100
Accumulated depreciation – PPE	(3 800)	(2 800)
Inventory	1 500	1 400
Trade receivables	1 600	1 800
Cash and cash equivalents	400	500
Total assets	<u>19 300</u>	<u>14 000</u>
Stated ordinary share capital	9 500	8 000
Retained earnings	5 500	4 400
Loan for land	2 400	-
Trade payables	1 750	1 600
Interest payable on loan	150	-
Total equity and liabilities	<u>19 300</u>	<u>14 000</u>

Additional information:

- Office equipment costing Rs. 1 000 000 was sold for Rs. 300 000 on cash during the year. On the date of the sale, the carrying amount of this equipment was Rs. 600 000.
- A land worth Rs. 3 000 000 was purchased on 01.04.2014 on credit. This loan is payable in 5 equal installments of Rs. 600 000 from the current year. Further, 5% annual interest is payable on the principal amount of the loan.
- All other acquisitions on PPE during the year have been made in cash.
- An interim dividend of Rs. 400 000 was paid during the year.
- The composition of ordinary shares issued during the year was as follows:

Description	Amount (Rs. '000)
Rights issue of shares	1 000
Issue of shares by capitalizing retained earnings	500
Total	1 500

All rights were exercised by the shareholders and cash duly received.

- The company is operating on a tax holiday period

Required:

- Statement of Cash Flows of Sumudu PLC for the year ending 31.03.2015 as per LAKS 7 (Statement of Cash Flows)
- Office Equipment Disposal Account

ADVANCE LEVEL – 2018

The summarized Statements of Financial Position of Bowatta PLC as at 31.03.2018 and 31.03.2017 are given below:

Description	at 31.03.2018 (Rs. '000)	As at 31.03.2017 (Rs. '000)
Property, Plant and equipment carrying amount	28 000	19 000
Inventory	9 680	8 800
Trade Receivables	9 500	10 500
Cash and Cash Equivalents	5 020	2 200
Total Assets	52 200	40 500
Stated Capital ordinary shares	22 800	18 000
Revaluation Reserve	2 000	-
Retained Earnings	5 200	2 500
Long term Loans	10 500	10 100
Trade Payables	8 600	8 100
Provision for Income Tax	5000	400
Bank Overdraft	2 600	1 400
Total Equity and liabilities	52 200	40 500

Additional Information:

- The profit before tax and after tax for the year ending 31.03.2018 were Rs. 6 000 000 and Rs. 4 500 000 respectively.
- Total interest expense on long-term loan for the year ending 31.03.2018 was Rs. 600 000. The accrued interest in this respect was Rs. 400 000 and it has been erroneously added to the long-term loan balance as at 31.03.2018
- Depreciation expense for the year ending 31.03.2018 was Rs. 1 250 000. During the year ending 31.03.2018, a new motor vehicle was purchased for cash and the land was revalued for the first time resulting a surplus. There were no other additions or disposals of property, plant and equipment during the year.
- The company made a public issue of shares during the year and paid an interim dividend for ordinary shareholders on 01.01.2018.
- Long-term loan is payable from 31.03.2020.

Required:

Statement of Cash Flows for the year ending 31.03.2018 as per LKAS 7 (Statement of Cash Flows), (Use the indirect method to calculate cash flows from operating Average inventories

