FAC1601

FINANCIAL ACCOUNTING REPORTING

UNISA college of economic and management sciences

FAC1601

DISCUSSION CLASSES NOTES (PART 2)

STUDY UNITS 6 - 10

UNISA university of south africa

FAC1601
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STUDY UNIT 6

COMPANIES

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COMPANIES

A company is an association of persons known as shareholders, for a common purpose, usually to increase their wealth (to make a profit).

Types of companies:

- **Private company - "(Proprietary)" Limited *or* (Pty) Ltd:**

  A privately owned company that is prohibited from inviting the public to subscribe for its shares.

- **Public company - "Limited" or Ltd:**

  A company that is permitted to invite the general public to subscribe for its share.

- **Personal liability company - "Incorporated" *or* Inc.:**

  A company that meets the criteria for a private company and is memorandum of incorporation states that it is a personal liability company.

COMPANIES

Types of companies (continue...):

- **State-owned company – SOE Ltd:**

  A company that is owned wholly or partly by the state.

- **Non-profit companies - NPC.:**

  A company that is incorporated for public benefit. It's income and property are not distributable to it's incorporators, members officers or any other persons related to them

ACCOUNTING TERMINOLOGY

- **Authorised share capital:**

  This is a maximum number of shares that a company may issue (sell).

- **Issued share capital:**

  This comprises of the **ACTUAL number of shares issued (sold).**

- **Classes of shares:**
  - **Ordinary shares** - shareholder has voting rights; may receive a dividend.
  - **Preference shares** - shareholder do not have voting rights. Receives a fixed dividend percentage and has priority over ordinary shares with regard to dividends and repayment of capital on liquidation.

ACCOUNTING FOR THE ISSUE OF SHARES

Receipt of money, as payment must accompany the application for the subscription of shares:

Dr:	Bank account
Cr:	Application and allotment (class of share) account

Upon allotment:

Dr:	Application and allotment (class of share) account
Cr:	Share capital account

In cases where there is oversubscription, oversubscribed applications:

Dr:	Application and allotment (class of share) account
Cr:	Bank account

Incorporators of the company:

The first issue of shares must always be to the incorporators of the company

EXAMPLE 1: ISSUE OF SHARES

Busy-Bee Ltd was incorporated on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares and 1 000 8% preference shares. On 15 May 20.1, 4 000 ordinary shares were offered at R1.50 per share and 1 000 preference shares at R0.90 per share. Applications for 4 500 ordinary shares and 1 000 preference shares were received on 02 May 20.1. The shares were allotted on the 31 May 20.1.

20.1		R	R
May 31	Bank **(R1,50 x 4 500) + (R0,90 x 1 000)**	7 650	
	Application and allotment: Ordinary shares		6 750
	Application and allotment: Preference Shares		900
	Receipt of application		
	Application and allotment: Ordinary shares	6 000	
	Share capital: Ordinary shares		6 000
	Allotment of 4 000 ordinary shares		
	Application and allotment: Preference Shares	900	
	Share capital: 8% Preference share capital		900
	Allotment of 1 000 Preference shares		
	Application and allotment: Ordinary shares	750	
	Bank		750
	Cash refund to excess applicants		

UNDERWRITING OF SHARES

Underwriting is a guarantee or assurance given by the underwriter (usually a merchant bank), to the company offering shares, that shares offered to the public will be subscribed in full.

If the shares underwritten are not taken in full by the public, the underwriter is liable for the unsubscribed shares.

UNDERWRITING OF SHARES

Commission payable to the underwriter:

- An expense that must be provided first, to create the liability and is paid after the issue of shares,
- The commission is calculated as a % of the R-value of the total issue,
- Commission expense payable to the underwriter can be written-off against the share premium account.

EXAMPLE 2: UNDERWRITING OF SHARE ISSUE

Shaka Ltd has an unissued share capital of 50 000 shares. On 1 January 20.5 Shaka Ltd offered 20 000 ordinary share to the public at R2.50 each. The offer was underwritten by Zulu Merchant Bank for a commission of 5%. Applications for 16 000 shares were received on 31 May 20.1 and all the transactions finalised.

20.1		R	R
Jan 1	Underwriting commission ***(R2.50 x 20 000) x 5%***	2 500	
	Zulu Merchant Bank		2 500
	Commission payable on share issue		
May 31	Bank ***(R2.50 x 16 000)***	40 000	
	Application and allotment: Ordinary shares		40 000
	Cash received with application for 16 000 shares		
	Application and allotment: Ordinary shares	40 000	
	Share capital: Ordinary shares		40 000
	Allotment of 16 000 ordinary shares.....		
	Zulu Merchant Bank ***(R2.50 x 4 000)***	10 000	
	Share capital: Ordinary shares		10 000
	Allotment of 4 000 ordinary shares		
	Bank ***R(10 000 – 2 500)***	7 500	
	Zulu Merchant Bank		7 500
	Receipt of money from Zulu Merchant Bank		

ISSUE OF CAPITALISATION SHARES

A bonus issue (no payment is received) of fully paid shares to shareholders. Distributable reserves are utilised – only a book entry is made.

Accounting procedure to record capitalisation of shares:

Where capitalisation issue is from **retained earnings –**

Dr - Retained earnings
Cr - Share capital: Ordinary shares

EXAMPLE 3: ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9.

Ordinary shares issued at R0,50 each	R200 000
Retained earnings	R 70 000

On the 1 March 20.9 the directors resolved to make a capitalisation issue at par of one share for every four shares previously issued.

BANDAS LTD

GENERAL JOURNAL

20.9		**R**	**R**
	Retained earnings	50 000	
	Share capital: Ordinary shares		50 000
	Capitalisation issue of one share for every four shares held		

DIVIDENDS

The part of the profit of the company that is distributed to its shareholders is referred to as **dividends**. It can only be paid from profits that are available for distribution. The company's solvency and liquidity test should verify the fact that it has adequate cash resources to pay the dividends.

Dividends on **ordinary shares** are paid out in cents per share while dividends on **preference shares** are paid out based on the **fixed percentage**

Preference shareholders have a **preferential right** to dividends. If a company has issued both preference and ordinary shares, the declaration of dividends to ordinary share would **imply** that the company is also declaring dividend on preference shares.

DECLARATION AND PAYMENT OF DIVIDENDS

WHEN DECLARED

		R	R
	Dividends	000	
	Dividends payable		000

WHEN PAID

		R	R
	Dividends payable	000	
	Bank		000

EXAMPLE 4: DECLARATION AND PAYMENT OF DIVIDENDS

Busy-Bee Ltd is an incorporated company with an issued share capital of 4 000 ordinary shares of R1,25 each and 1 000 10% preference shares of R1,50 each. On 30 March 20.2, the company declared dividends of R0,20 per share on ordinary shares. Dividends were paid in full on 15 April 20.2.

BUSY-BEE LTD

GENERAL JOURNAL

20.2		R	R
March 30	Preference dividends ***(R1,50 x 1 000 shares) x 10%***	150	
	Ordinary dividends (***R0,20 x 4 000 shares)***	800	
	Dividends payable		950
	Declaration of preference and ordinary dividends		
April 15	Dividends payable	950	
	Bank		950
	Payment of dividends to preference and ordinary shareholders		

STUDY UNIT 7

STATEMENT OF CASH FLOWS

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STATEMENT OF CASH FLOWS

A statement of cash flows is a financial statement that shows a business entity's **flow of cash and cash equivalents**.

The presentation of a statement of cash flows is dealt with in **IAS 7**.

The **main objective** is to disclose how cash and cash equivalents of a business entity were generated and managed.

BUSINESS IS BASED ON THREE GROUPS OF ACTIVITIES

Operating activities - Principal revenue-producing activities, primarily disclosed in the statement of comprehensive income.

Investing activities - Mainly the acquisition and disposal of non-current assets, primarily disclosed in the non-current asset sections of the statements of financial position.

Financing activities - Activities that result in changes of the equity and borrowings, primarily disclosed in the equity and liabilities sections of the statements of financial position.

ACCRUAL *vs* CASH BASIS OF ACCOUNTING

The statement of comprehensive income and statement of financial position is prepared on the **accrual basis of accounting.**

In terms of the accrual accounting:

"income, the sale of non-current assets etc., is reported when **earned**, and expenses, the purchase of non-current assets etc., when **incurred**"

In terms of the cash basis of accounting:

"income, the sale of non-current assets etc., is reported when **received**, and expenses, the purchase of non-current assets etc., when **paid**"

*The **period** when earned or incurred is **irrelevant***

CASH FLOWS FROM OPERATING ACTIVITIES

Two methods for reporting cash flows from operating activities:

- ***Direct Method*** **-** The direct method for creating a statement of cash flows reports major classes of gross cash receipts and payments.

- ***Indirect Method*** **-** involves reconciling comprehensive income to a cash basis. It shows how non-cash flows affect comprehensive income. The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts for all cash-based transactions.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

	R	
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	0000	
Cash paid to suppliers and employees	(0000)	
Cash generated from operations	0000	
Drawings (partnerships & sole proprietor)	(000)	
Interest received	000	
Interest paid	(000)	
Income tax paid	(000)	
Distribution to members paid	(000)	
Net cash from operating activities		0000

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

Determination of cash receipts from customers:

- Where goods are sold for **CASH** use the **REVENUE** figure.
- Where goods are sold on **CREDIT**, the following calculation is necessary:

	R
Opening balance – Debtors	0000
ADD: Credit sales	0000
	0000
LESS: Credit losses *(written off during the year)*	(000)
Closing balance - Debtors	(000)
Cash received from customers	0000

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

Determination of cash paid to suppliers and employees:

1. Where goods are purchased for **CASH, use the PURCHASES** amount**.**

   PLUS

   All expenses incurred by the entity paid for in **CASH**

2. Where goods are purchased on **CREDIT** the following calculation is necessary**:**

	R
Opening balance - Creditors	xxxxx
ADD: Credit purchases	xxxxx
	xxxxx
LESS: Closing balance - Creditors	(xxx)
Cash paid to suppliers	xxxxx

CASH FLOWS FROM OPERATING ACTIVITIES *(DIRECT METHOD)*

Determination of cash paid to suppliers and employees *(continued)*

Determination of cash paid in respect of selling, administrative and selling expenses

PREPAID EXPENSES:	**R**
Expense item, *eg* **Rent expense**	xxxxx
Add: Prepaid amount **- in the current year**	xxx
Less: Prepaid amount **- in the previous year**	(xxx)
Cash paid during the year	xxxx

ACCRUED EXPENSES:	**R**
Expense item, *eg* **Salaries and wages**	xxxxx
Add: Accrued amount **- in the previous year**	xxxx
Less: Accrued amount **- in the current year**	(xxx)
Cash paid during the year	xxxxx

EXAMPLE 1: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current assets	**R**	**R**
Debtors control	69 500	79 500
Inventory	40 600	39 300
Prepayment (Insurance)	8 400	3 600
Current liabilities		
Creditors control	34 300	54 300

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 20.8:

Revenue	970 000
Cost of sales	261 600
Credit losses *(a debtor declared insolvent during the year)*	1 500

All sales and purchases are on credit.

REQUIRED:

Determine the amount that must be disclosed as cash received from customers in the statement of cash flow of Unicorn CC, for the year ended 31 December 2009, according to the direct method.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

Determination of cash receipts from customers:

	R
Debtors control – December 2008	79 500
ADD: Credit sales	970 000
	1 049 500
LESS: Credit losses *(written off during the year)*	(1 500)
Debtors control	(69 500)
Cash received from customers	978 000

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	

EXAMPLE 2: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current assets	**R**	**R**
Debtors control	69 500	79 500
Inventory	40 600	39 300
Prepayment (Insurance)	8 400	3 600
Current liabilities		
Creditors control	34 300	54 300

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 20.8:

Revenue	970 000
Cost of sales	261 600
Credit losses	1 500

All sales and purchases are on credit.

REQUIRED:

Determine the amount that must be disclosed as (part of) cash paid to suppliers and employees in statement of cash flow of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

Determination of cash paid to suppliers and employees:

1. Cash paid for purchases:

	R
Creditors control *(2008)*	54 300
Credit purchases R(261 600 + 40 600 – 39 300)	262 900
	317 200
Creditors control *(2009)*	(34 300)
Cash paid for purchases	**282 900**

Plus

2. Cash paid to other suppliers and employees:

EXAMPLE 3: ***(DIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 3: ***(continued)*** ***(DIRECT METHOD)***

Extract from the statement of financial position

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the cash generated from operations-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the direct method.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

Determination of cash paid to suppliers and employees:

1. Cash paid for purchases:

	R
Cash paid for purchases	**282 900**

Plus

2. Cash paid to other suppliers and employees:

	R
Administrative expenses	111 450
Salaries	340 000
Fuel and maintanance	70 500
Insurance expenses R(17 600 + 8 400 – 3 600)	22 400
Water and electricity	21 700
	566 050

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	**(848 950)**	

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	**129 550**	

ITEMS REQUIRING SEPARATE DISCLOSURE *(DIRECT & INDIRECT METHOD)*

- Dividends received
- Interest received
- Interest paid
- Income tax paid
- Drawings (sole proprietor / partnership)
- Distribution to members paid (cc)
- Proceeds from sale of financial assets at fair value through profit or loss: Held for trading
- Acquisition of financial assets at fair value through profit or loss: Held for trading

Refer to paragraph 7.6.1.2 (b), page 287 of the prescribed textbook

EXAMPLE 4: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current liabilities	**R**	**R**
Creditors control	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 20.8:

	R
Fuel and maintenance: Vehicles	70 500
Insurance expense	17 600
Water and electricity	21 700
Dividends received	30 000
Income tax expense	34 020
Interest expense	69 900
Loss on sale of vehicle	1 800

REQUIRED:

Determine the amount(s) that must be disclosed after cash generated from or used in operations in statement of cash flows of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	129 550	
Dividends received	**30 000**	

EXAMPLE 5: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current liabilities	**R**	**R**
Creditors control	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 20.8:

	R
Fuel and maintenance: Vehicles	70 500
Insurance expense	17 600
Water and electricity	21 700
Dividends received	30 000
Income tax expense	34 020
Interest expense	69 900
Loss on sale of vehicle	1 800

REQUIRED:

Determine the amount(s) that must be disclosed after cash generated from or used in operations in statement of cash flows of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	**(69 900)**	

EXAMPLE 6: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current liabilities	**R**	**R**
Creditors control	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 20.8:

	R
Fuel and maintenance: Vehicles	70 500
Insurance expense	17 600
Water and electricity	21 700
Dividends received	30 000
Income tax expense	34 020
Interest expense	69 900
Loss on sale of vehicle	1 800

REQUIRED:

Determine the amount(s) that must be disclosed after cash generated from or used in operations in statement of cash flows of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid R(34 020 + 14 100 – 17 000)	**(31 120)**	

EXAMPLE 7: ***(DIRECT METHOD)***

The following information is extracted from the accounting records of Unicorn CC, at 31 December 2009, the end of the financial year:

	2009	2008
Current liabilities	**R**	**R**
Creditors control	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

A profit distribution of R20 000 must be made to the members.

REQUIRED:

Determine the amount(s) that must be disclosed after cash generated from or used in operations in statement of cash flows of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid R(34 020 + 14 100 – 17 000)	(31 120)	
Distribution paid R(20 000 – 20 000)	**-**	

CASH FLOWS FROM OPERATING ACTIVITIES
(DIRECT METHOD)

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	
Cash received from customers	978 500	
Cash to suppliers and employees	(848 950)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid R(34 020 + 14 100 – 17 000)	(31 120)	
Distribution paid R(20 000 – 20 000)	-	
Net cash from operating activities		58 530

INDIRECT METHOD
CASH FLOWS FROM OPERATING ACTIVITIES

Indirect Method **-** involves reconciling comprehensive income to a cash basis. It shows how non-cash flows affect comprehensive income. The indirect method uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts for all cash-based transactions.

INDIRECT METHOD
CASH FLOWS FROM OPERATING ACTIVITIES

	R 000
Comprehensive income for the year **or** Profit before tax - CC	
Non-cash items	+/-
(refer to paragraph 7.6.1.2 (a): Prescribed Textbook)	
Items disclosed after cash generated from/(used) in operations	+/-
(refer to paragraph 7.6.1.2 (b): Prescribed Textbook)	
	=
Changes in current assets and liabilities:	
Decrease in current assets	+
Increase in current assets	-
Decrease in current liabilities	-
Increase in current liabilities	+
Cash generated from operations	=
Items disclosed after cash generated from/(used) in operations	+/-
(refer to paragraph 7.6.1.2 (b): Prescribed Textbook)	
Net cash flow from operating activities	**=**

EXAMPLE 8: ***(INDIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 8: ***(continued)*** ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the cash generated from operations-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	**114 200**	

EXAMPLE 9: ***(INDIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	

EXAMPLE 10: ***(INDIRECT METHOD)***

Extract from the statement of financial position

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the changes in working capital (current assets and current liabilities) in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	**(1 300)**	

EXAMPLE 11: ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the changes in working capital (current assets and current liabilities) in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	**10 000**	

EXAMPLE 12: *(INDIRECT METHOD)*

Extract from the statement of financial position

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the changes in working capital (current assets and current liabilities) in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	**(4 800)**	

EXAMPLE 13: *(INDIRECT METHOD)*

Extract from the statement of financial position

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Disclose the changes in working capital (current assets and current liabilities) in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	**(20 000)**	

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	**129 550**	

EXAMPLE 14: ***(INDIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 14: ***(continued)*** ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Determine the amount(s) that must be disclosed separately as cash paid/received in statement of cash flow of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	129 550	
Dividends received	**30 000**	

EXAMPLE 15: ***(INDIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 15: ***(continued)*** ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Determine the amount(s) that must be disclosed separately as cash paid/received in statement of cash flow of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	**(69 900)**	

EXAMPLE 16: *(INDIRECT METHOD)*

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 16: ***(continued)*** ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

The profit before tax amounted to R114 200.

Required:

Determine the amount(s) that must be disclosed separately as cash paid/received in statement of cash flow of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	**(31 120)**	

EXAMPLE 17: ***(INDIRECT METHOD)***

The following information pertains to Unicorn CC:

Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

EXAMPLE 17: ***(continued)*** ***(INDIRECT METHOD)***

Extract from the statement of financial position:

	2009	2008
Current assets	**R**	**R**
Inventories	40 600	39 300
Trade and other receivables	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables	34 300	54 300
Distributions to members payable	20 000	-
Current tax payable	17 000	14 100

Additional information:

A profit distribution amounting to R20 000 must be made to the members.

Required:

Determine the amount(s) that must be disclosed separately as cash paid/received in statement of cash flow of Unicorn CC.

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	(31 120)	
Distribution to members paid	**-**	

CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)

	R	R
Profit before tax	114 200	
Less: Profit on available for-sale financial asset	(60 100)	
Dividend income	(30 000)	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
	145 650	
Increase in inventories R(40 600 - 39 300)	(1 300)	
Decrease in trade debtors R(69 500 – 79 500)	10 000	
Increase in prepayments R(8 400 – 3 600)	(4 800)	
Decrease in trade creditors R(34 300 – 54 300)	(20 000)	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	(31 120)	
Distribution to members paid	-	
Net cash from operating activities		58 530

CASH FLOWS FROM INVESTING ACTIVITIES

Determination of cash spend or received from changes in the Non-current assets

- Shows money used to purchase resources that will generate future income,
- Shows money received from selling of assets,
- Shows money used for purchasing of non-current financial assets like investments (shares in unlisted company) or fixed deposits

  (shares in listed company is held for trading and thus current, transactions will be reflected in cash flows from operating activities)
- Shows money received for sale of non-current financial asset

CALCULATION OF CASH INFLOW OR OUTFLOW

Ascertain the following:

- was there a change?
- if yes, was it for cash or credit?

Cost is given

- deduct two years from each other
- difference is due to cash or not, refer to additional information

Carrying amount is given

- deduct two years from each other, deduct the depreciation
- difference cash or not, refer to additional information

Property, plant and equipment (PPE) note is given

- refer to additions and disposal line
- cash or not, refer to additional information

Selling price or Proceeds on sale = Carrying amount + profit (– loss)

EXAMPLE 18: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Land and buildings)*	500 000	-

Acquisition of land and buildings was paid for in cash.

Required: Prepare the cash flow from investing activities section.

EXAMPLE 18: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Land and buildings)*	500 000	-

Acquisition of land and buildings was paid for in cash.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in property, plant and equipment to expand Operating capacity:		
Addition to land and buildings R(500 000 – 0)	**(500 000)**	

EXAMPLE 19: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Vehicles)*	126 650	64 000

Statement of comprehensive income item:

Loss on sale of vehicles	R 1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A replacement vehicle was purchased for cash.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Investment in PPE to maintain operating activities:		
Proceeds from the sale of vehicle R(60 800 – 1 800)	**59 000**	

EXAMPLE 20: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Vehicles)*	126 650	64 000

Statement of comprehensive income item:

Loss on sale of vehicles	R 1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A replacement vehicle was purchased for cash.

Required: Prepare the cash flow from investing activities section.

PROCEEDS ON SALE OF VEHICLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800

PROCEEDS ON SALE OF VEHICLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800

Dr **Vehicle realisation** **Cr**

	R		R
Vehicle *(carrying amount)*	60 800		

PROCEEDS ON SALE OF VEHICLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800

Dr **Vehicle realisation** **Cr**

	R		R
Vehicle *(carrying amount)*	60 800	Loss on sale	1 800

PROCEEDS ON SALE OF VEHICLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800

Dr **Vehicle realisation** **Cr**

	R		R
Vehicle *(carrying amount)*	60 800	Loss on sale	1 800
		Bank	**59 000**

EXAMPLE 19: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Vehicles)*	126 650	64 000

Statement of profit or loss and other comprehensive income items:

Loss on sale of vehicles	R 1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A replacement vehicle was purchased for cash.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Investment in PPE to maintain operating activities:		
Proceeds from the sale of vehicle R(60 800 – 1 800)	**59 000**	

EXAMPLE 19: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Vehicles)*	126 650	64 000

Statement of profit or loss and other comprehensive income items:

Loss on sale of vehicles	R 1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A replacement vehicle was purchased for cash.

Required: Prepare the cash flow from investing activities section.

CASH PAID FOR REPLACEMENT VEHECLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800
Bank		**? ? ?**	**Depreciation**	**25 550**

Dr **Depreciation** **Cr**

	R		
Vehicles *(via accumulated depreciation account)*	**25 550**		

CASH PAID FOR REPLACEMENT VEHECLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R		R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation	60 800
Bank		**? ? ?**	Depreciation	25 550
			Balance *(Dec 2009)*	**c/d** **126 650**

Dr **Depreciation** **Cr**

	R		
Vehicles *(via accumulated depreciation account)*	25 550		

CASH PAID FOR REPLACEMENT VEHECLE

Dr **Vehicles *(at carrying amount)*** **Cr**

		R			R
Balance *(Dec 2008)*	b/d	64 000	Vehicle realisation		60 800
Bank		***149 000**	Depreciation		25 550
			Balance *(Dec 2009)*	c/d	126 650
		213 000			213 000

* Balancing figure

Dr **Depreciation** **Cr**

	R		
Vehicles *(via accumulated depreciation account)*	25 550		

EXAMPLE 20: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Vehicles)*	126 650	64 000

Statement of profit or loss and other comprehensive income items:

Loss on sale of vehicles	R 1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A replacement vehicle was purchased for cash.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Investment in PPE to maintain operating activities:		
Proceeds from the sale of vehicle R(60 800 – 1 800)	59 000	
Investment in PPE to maintain operating activities:		
Replacement of vehicle	**(149 000)**	

EXAMPLE 21: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment *(Furniture)*	243 700	243 000

Statement of profit or loss and other comprehensive income item:

Depreciation (Furniture) R24 300

A member of the CC contributed furniture, valued at R25 000, to the CC. This contribution was regarded as capital contribution and was recorded as such. All the other additions was were paid for in cash.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Proceeds from the sale of vehicle R(60 800 – 1 800)	59 000	
Investment in PPE to maintain operating activities:		
Investment in PPE to maintain operating activities:		
Replacement of vehicle	(149 000)	
Additions to furniture	**-**	

EXAMPLE 22: CASH FLOWS FROM INVESTING ACTIVITIES

The following information is extracted from the accounting records of Unicon CC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Investment	-	200 400

Statement of profit or loss and other comprehensive income item:

Profit on sale of investment R60 100

The cost price of the investment was equal to the fair value thereof.

Required: Prepare the cash flow from investing activities section.

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Proceeds from the sale of vehicle R(60 800 – 1 800)	59 000	
Investment in PPE to maintain operating activities:		
Replacement of vehicle	(149 000)	
Additions to furniture	-	
Proceeds from the sale of investment R(200 400 + 60 100)	260 500	

CASH FLOWS FROM INVESTING ACTIVITIES

CASH FLOWS FROM INVESTING ACTIVITIES	**R**	
Investment in PPE to expand operating capacity:		
Addition to land and buildings R(500 000 – 0)	(500 000)	
Proceeds from the sale of vehicle R(60 800 – 1 800)	59 000	
Investment in PPE to maintain operating activities:		
Replacement of vehicle	(149 000)	
Additions to furniture	-	
Proceeds from the sale of investment R(200 400 + 60 100)	260 500	
Net cash used in investing activities		**(329 500)**

CASH FLOWS FROM FINANCING ACTIVITIES

Determination of cash spent or received from changes in Equity and Long-term borrowings

- Shows the sources of money used to finance the entity's activities
- Indicates future claims on the entity
- Equity – retained earnings is non-cash
- Shows money repaid on borrowings or capital/membership contributions

EXAMPLE 23: CASH FLOWS FROM FINANCING ACTIVITIES

The following information is extracted from the accounting records of UnicornCC, at 31 December, the end of the financial year:

	2009	2008
	R	R
Member contributions	300 900	275 900
Mortgage	500 000	-
Long term-borrowings	-	207 500
Current portion of long-term borrowings	207 500	
Bank (Dr)	265 530	36 500

Additional information:

1. A member of the CC contributed specialised equipment, valued at R25 000, to the CC. This contribution was regarded as capital contribution and was recorded as such. All the other additions was were paid for in cash.

Required: Prepare the cash flow from financing activities section.

CASH FLOWS FROM FINANCING ACTIVITIES	**R**	
Proceeds from mortgage R(500 000 – 0)	500 000	
Net cash from financing activities		500 000

UNICORN CC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DEC 2009

CASH FLOWS FROM OPERATING ACTIVITIES	**R**	**R**
.....	.....	
.....	.....	
Net cash from operating activities		58 530
CASH FLOWS FROM INVESTING ACTIVITIES		
.....	.....	
.....	.....	
Net cash from investing activities		(329 500)
CASH FLOWS FROM FINANCING ACTIVITIES		
.....	.....	
.....	.....	
Net cash from financing activities		500 000
Net increase in cash and cash equivalents		229 030
Cash and cash equivalents at beginning of the year		36 500
Cash and cash equivalents at end of the year		265 530

STUDY UNIT 8

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

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ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

The analysis and interpretation of financial statements refers to the measurement and evaluation of information contained in the financial statements.

This is main **objective** of financial statement analysis to summarise information contained in the financial statements for decision making purposes.

The process of entails computation of ratios which are then interpreted in terms of a predetermined yardstick.

Different users will use different ratios.

CATAGORIES OF FIANCIAL RATIOS

PROFITABILITY	• Return on equity • Return on assets • Gross profit percentage • Profit margin • Financial leverage and leverage effect
LIQUIDITY	• Current ratio • Acid test ratio • Trade receivables collection period • Trade payables payment period • Inventory turnover rate • Inventory holding period
SOLVENCY	• Debt equity ratio • Times interest earned ratio

EXAMPLE 1:

The following information was extracted from the financial records of Zoo Limited at 28 February 2009, the end of the financial year.

	2009	2008
	R	R
Inventory	43 500	13 500
Trade receivables	30 000	28 000
Trade payables	18 000	16 000

Additional information:

1. Purchases for the year amounted to R165 000 and 45% thereof were on credit.
2. The gross profit percentage is 40% on sales.
3. 30% of the total sales were cash sales.
4. Ratios reported in year ended 28 February 2008:
   - Trade receivables collection period – 56 days
   - Trade payables payment period – 54,6 days
   - Inventory turnover rate – 5 times

Required:

Calculate the following ratios for the year ended 28 February 2009:

(a) Trade receivables collection period

(b) Trade payables payment period

(c) Inventory turnover rate

SOLUTION

(a) Trade receivables collection period:

$$\frac{\text{Average trade receivables}}{\text{Credit sales}}$$

$$\frac{\text{R}[(30\,000 + 28\,000) \div 2] \times 365}{\text{R}225\,000\text{①} \times 70\%}$$

67,21 days
(Deteriorated)

① **Calculations:**

	R	%
Sales	?	100
Cost of sales	*(135 000)	(60)
Gross profit	?	40

* Cost of sales: R[(13 500 +165 000) – 43 500] = R135 000

If cost of sales = 60% of sales,
Sales = R135 000 ÷ 60%
R225 000

SOLUTION (*continued)*

(b) Trade payables payment period:

$$\frac{\text{Average trade creditors}}{\text{Credit purchases}}$$

$$\frac{\text{R}[(18\,000 + 16\,000) \div 2] \times 365}{\text{R}165\,000① \times 45\%}$$

83,57 days
(Improved)

(c) Inventory turnover rate:

$$\frac{\text{Cost of sales}}{\text{Average inventory}}$$

$$\frac{\text{R}135\,000}{\text{R}(43\,500 + 13\,500) \div 2}$$

4,74 days
(Deteriorated)

STUDY UNIT 9

BRANCHES

UNISA university of south africa

CALCULATION OF PROFIT MARK-UP BASED ON THE COST PRICE

Determination of the selling price: (where cost price is given)

Inventory is invoiced to the branch at cost plus **25%** and inventory with a cost price of **R200**, is invoiced to the branch. Determine the selling price and profit mark-up.

	%
Cost price	100
Profit mark-up	+25
Selling price	125

The selling price is: R200 x 125/100 = R250

The profit mark-up is: R200 x 25/100 = R50

OR

R250 - R200 = R50

CALCULATION OF PROFIT MARK-UP BASED ON THE COST PRICE

Determination of the cost price: (where selling price is given)

Inventory is invoiced to the branch at cost plus **25%** and inventory with a selling price of **R250**, is invoiced to the branch. Determine the cost and profit mark-up.

	%
Selling price	125
Profit mark-up	-25
Cost price	100

The cost price is: R250 x 100/125 = R200

The profit mark-up is: R250 x 25/125 = R50

OR

R250 - R200 = R50

ACCOUNTS NECESSARY TO RECORD INVENTORY TRANSACTIONS

Dr **Branch inventory account** Cr

	R		R

All inventory transactions at selling price, cost and profit mark-up shown separately

Dr **Branch adjustment account** Cr

	R		R

The profit mark-up on all inventory transactions between the head office and the branch; and profit murk-up on purchased by the branch

Dr **Inventory to branch account** Cr

	R		R

The cost price of all inventory transactions between the head office and the branch.

EXAMPLE 1:

The following information relates to Knife, a dependant branch of Sharp Limited:

Balances -	Inventory at cost price	1 January 2000	R38 040
	Inventory at selling price	31 December 2000	R49 500

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

		R		R
Balance	b/d	45 648		

Dr **Branch adjustment account** Cr

	R		R
		Balance: (Mark-up on opening inventory) b/d	7 608

EXAMPLE 2:

Transactions during the year ended 31 December 2000:

Goods sent to branch (cost price)	R303 120
Returns to head office (selling price)	R 1 500

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
Inventory to branch	303 120		
Branch adjustment	60 624		

Dr **Inventory to branch** Cr

	R		R
		Branch inventory: (Deliveries at cost)	303 120

Dr **Branch adjustment account** Cr

	R		R
		Branch inventory (Mark-up on deliveries)	60 624

EXAMPLE 3:

Transactions during the year ended 31 December 2000:

Goods sent to branch (cost price)	R303 120
Returns to head office (selling price)	R 1 500

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
Inventory to branch	303 120	Inventory to branch (returns)	1 250
Branch adjustment	60 624	Branch adjustment	250

Dr **Inventory to branch** Cr

	R		R
Branch inventory: Returns to head office	1 250	Branch inventory: (Deliveries at cost)	303 120

Dr **Branch adjustment account** Cr

	R		R
Branch inventory: Mark up on returns	250	Branch inventory (Mark-up on deliveries)	60 624

EXAMPLE 4:

Transactions during the year ended 31 December 2000:

Cash sales (deposited)	R116 760
Credit sales	R175 920

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
		Bank: Cash sales	116 760
		Branch debtors: Credit sales	175 920

Dr **Bank** Cr

	R		R
Branch inventory: Cash sales	116 720		

Dr **Branch debtors control** Cr

	R		R
Branch inventory: Credit sales	175 920		

EXAMPLE 5:

Transactions during the year ended 31 December 2000:

An amount of R1 305 was embezzled form the money received for cash sales. No entry in this respect has been made. The company is not insured against theft of cash.

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
		Branch expenses	1 305

Dr **Branch expense** Cr

	R		R
Branch inventory	1 305		

EXAMPLE 6:

Transactions during the year ended 31 December 2000:

An annual sale took place at the end of November 2000. Goods were sold at selling price less 30%. The proceeds form the annual sale amounted to R50 400, which must still be deposited in the head office's bank account.

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
		Bank: Cash sales	50 400
		Branch adjustment: Mark-down on sales	12 000
		Branch expense: Mark-down on cost	9 600

EXAMPLE 7:

The following information relates to Knife, a dependant branch of Sharp Limited:

Balances - Inventory at cost price	1 January 2000	R38 040
at selling price	31 December 2000	R49 500

Inventory sent to branch at a selling price of R7 500 is still in transit at 31 December 2000. Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr **Branch inventory account** Cr

	R		R
		Balance (inventory in transit)	7 500
		Balance (closing inventory)	49 500

Dr **Branch adjustment account** Cr

	R		R
Balance (MU on inventory in transit)	1 250		
Balance (MU on closing inventory	8 250		

BALANCING THE BRANCH INVENTORY ACCOUNT

The balancing figure in this account can either be a **surplus** or **shortage** of inventory.

Entries necessary to record a **surplus:**

Dr: Branch inventory account
Cr: Branch adjustment account

Entries necessary to record a **shortage:**

Cr: Branch inventory account
Dr: Branch adjustments account

STUDY UNIT 10

THE TIME VALUE OF MONEY

UNISA university of south africa

WHAT IS THE TIME VALUE OF MONEY?

- A “Rand” received today is worth more than a “Rand” received in future:
  - This is because a “Rand” received today can be invested to earn interest
  - The amount of interest earned depends on the rate of return that can be earned on the investment
- Time value of money measures the value of a “Rand” over time

METHODS OF CALCULATING INTEREST

- **Simple interest:**

  Refers to a situation where interest is payable on capital only, that is interest is not reinvested to earn more interest.

- **Compound interest:**

  Refers to a situation where interest is on both capital and accumulated interest.

FUTURE VALUE:

Future value is the amount that an investment will be worth at a future date if invested at compounded interest.

Calculating the future value:

Refer to page 225 of the study guide for the formula.

Future value interest factor (FVIF) is a factor that is used to simplify the calculation for finding the future value of a series of values. FVIFs are presented in the form of a table with FVIF values separated by respective period and interest rate combinations.

A table of FVIF is presented as TABLE 1, on page 246 of the Study Guide.

NB: You must be able to use the tables as formulas will not be given in the examination.

EXAMPLE 1: FUTURE VALUE

Calculate the future value of R30 000 invested for 3 years at 10% compounded interest per annum.

First identify the basic elements, namely:

-Amount at the beginning (PV)	=	R30 000
-Number of periods or term	=	3 years
-Interest rate	=	10%
-Amount at the end (FV)	=	?

Using the TABLE 1 on page 246 of the study guide, look up for the factor under 10% column against 3 year period. The factor is 1.331.

Amount at the beginning (PV)	=	R30 000
Factor as per table	=	1.331

Amount at the end (FV): R30 000 x 1.331 = R39 930

PRESENT VALUE:

Present value is the value on a given date of a future payment or series of future payments, discounted to reflect the time value of money.

Calculating the present value:

Refer to page 227 of the study guide for the formula.

Present value interest factor (PVIF) is a factor that is used to simplify the calculation for finding the present value of a series of values. PVIFs are presented in the in the form of a table with PVIF values separated by respective period and interest rate combinations.

A table of PVIF is presented as TABLE 3, on page 248 of the Study Guide.

NB: You must be able to use the tables as formulas will not be given in the examination.

EXAMPLE 2: PRESENT VALUE

Calculate the amount that must be invested at a rate of 10% per annum to yield R30 000 after 3 years.

First identify the basic elements, namely:

-Amount at the beginning (PV)	=	?
-Number of periods or term	=	3 years
-Interest rate	=	10%
-Amount at the end (FV)	=	R30 000

Using the TABLE 3 on page 248 of the study guide, look up for the factor under 10% column against 3 year period. The factor is .751

Amount at the end (FV)	=	R30 000
Factor as per table	=	0.751

Amount at the beginning: R30 000 x 0.751 = R22 530

ANNUITIES:

An annuity is a series of equal payments made at equal intervals of time, such as monthly, quarterly, half yearly or yearly.

Ordinary annuities: A series of fixed payments made at the end of each period over a fixed amount of time.

Annuities due: An annuity whose payment is to be made immediately, rather than at the end of the period.

Deferred annuities: Where the payments do not commence until a period of time has elapsed.

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Perpetuities: An annuity that has no definite end.

FUTURE VALUE OF AN ANNUITY (FVA):

FVA is the value of a series of payments at a specified date in the future.

Calculating the future value:

Refer to page 229 of the study guide for the formula.

Future value of an annuity interest factor (FVIFA) is a factor that is used to simplify the calculation for finding the future value of an annuity. FVIFAs are presented in the in the form of a table with FVIFA values separated by respective period and interest rate combinations.

A table of FVIFA is presented as TABLE 2, on page 247 of the Study Guide.

NB: You must be able to use the tables as formulas will not be given in the examination.

EXAMPLE 3: FUTURE VALUE OF AN ANNUITY (FVA)

An amount of R15 000 is to be invested annually at the end of each year for 3 years at 10% compounded interest per annum. Calculate the future value of the annuity.

First identify the basic elements, namely:

-Amount at the end (FVA)	=	?
-Number of periods or term	=	3 years
-Interest rate	=	10%
-Amounts invested at the end of each year	=	R15 000

Using the TABLE 2 on page 247 of the study guide, look up for the factor under 10% column against 3 year period. The factor is 3.310.

Amount at the end (FVA)	=	R15 000
Factor as per table	=	3.310

Future value of the annuity: R15 000 x 3.310 = R49 650

PRESENT VALUE OF AN ANNUITY (PVA):

The **PVA** is the discounted value of a set of cash flows in the future, at the beginning of the initial period.

Calculating the present value:

Refer to page 232 of the study guide for the formula.

Present value of an annuity interest factor (PVIFA) is a factor that is used to simplify the calculation for finding the present value of an annuity. PVIFAs are presented in the in the form of a table with PVIFA values separated by respective period and interest rate combinations.

A table of PVIFA is presented as TABLE 4, on page 249 of the Study Guide.

NB: You must be able to use the tables as formulas will not be given in the examination.

EXAMPLE 4: PRESENT VALUE OF AN ANNUITY (PVA)

You are planning to go on holiday in a year's time. The total cost of your holiday will amount to R50 000. Calculate the amount that you will need to save monthly at an interest rate of 12% per annum, compounded monthly, to have R50 000 in a year's time.

Basic elements:

-Amount at the end (FVA)	=	R50 000
-Number of periods	=	12 months
-Interest rate	=	12% 12 = 1%
-Amounts to be saved at the end of each year	=	?

Using the TABLE 2 on page 247 of the study guide, look up for the factor under 1% column against 12 month period. The factor is 12.682.

Amount at the end (FVA)	=	R50 000
Factor as per table	=	12.682

Future value of the annuity: R50 000 12.682 = R3 943

Wishing you the best on your studies!

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LECTURERS

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