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ACCA F7

Financial Reporting(INT.)

财务报告（国际会计准则）

Chapter 19 Statements of cash flows

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IAS 7 Statement of cash flows



Statement of cash flows

It has been argued that 'profit' does not always give a useful or meaningful picture of a company's operations. Readers of a company's financial statements might even be **misled by a reported profit figure.**



Statement of cash flows

Cash comprises **cash on hand** and **demand deposits**

Cash equivalents are **short-term**, highly liquid **investments** that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.



Statement of cash flows

Presentation of a statement of cash flows

IAS 7 requires statements of cash flows to report cash flows during the period classified by operating, investing and financing activities.



Statement of cash flows

Operating activities

This is perhaps the key part of the statement of cash flows because it shows whether, and to what extent, companies can **generate cash from their operations**. It is these operating cash flows which must, in the end pay for all cash outflows relating to other activities, ie paying loan interest, dividends and so on.



Statement of cash flows

The standard gives the following as examples of cash flows from operating activities.

- (a) Cash receipts from the sale of goods and the rendering of services
- (b) Cash receipts from royalties, fees, commissions and other revenue
- (c) Cash payments to suppliers for goods and services
- (d) Cash payments to and on behalf of employees



Investing activities



Statement of cash flows

The cash flows classified under this heading show the extent of new investment in **assets which will generate future profit and cash flows.**



Statement of cash flows

The standard gives the following examples of cash flows arising from investing activities.

- (a) Cash payments to acquire property, plant and equipment, intangibles and other non-current assets, including those relating to capitalised development costs and self-constructed property, plant and equipment
- (b) Cash receipts from sales of property, plant and equipment, intangibles and other non-current assets



Statement of cash flows

- (c) Cash payments to acquire shares or debentures of other entities
- (d) Cash receipts from sales of shares or debentures of other entities
- (e) Cash advances and loans made to other parties
- (f) Cash receipts from the repayment of advances and loans made to other parties



Financing activities



Statement of cash flows

Financing activities

This section of the statement of cash flows shows the share of cash which the entity's capital providers have claimed during the period. This is an indicator of **likely future interest and dividend payments**



Statement of cash flows

The standard gives the following examples of cash flows which might arise under this heading.

- (a) Cash proceeds from issuing shares
- (b) Cash payments to owners to acquire or redeem the entity's shares
- (c) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or longterm borrowings
- (d) Principal repayments of amounts borrowed under finance leases



Statement of cash flows

STATEMENT OF CASH FLOWS (DIRECT METHOD) – YEAR ENDED 31 DECEMBER 20X7

	\$m	\$m
<i>Cash flows from operating activities</i>		
Cash receipts from customers	30,330	
Cash paid to suppliers and employees	<u>(27,600)</u>	
Cash generated from operations	2,730	
Interest paid	(270)	
Income taxes paid	<u>(900)</u>	
<i>Net cash from operating activities</i>		1,560
<i>Cash flows from investing activities</i>		
Purchase of property, plant and equipment	(900)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	<u>200</u>	
<i>Net cash used in investing activities</i>		(480)
<i>Cash flows from financing activities</i>		
Proceeds from issue of share capital	250	
Proceeds from long-term borrowings	250	
Dividends paid*	<u>(1,290)</u>	
<i>Net cash used in financing activities</i>		<u>(790)</u>
<i>Net increase in cash and cash equivalents</i>		290
<i>Cash and cash equivalents at beginning of period</i>		<u>120</u>
<i>Cash and cash equivalents at end of period</i>		<u><u>410</u></u>

*This could also be shown as an operating cash flow.



Statement of cash flows

STATEMENT OF CASH FLOWS (INDIRECT METHOD) – YEAR ENDED 31 DECEMBER 20X7

	\$m	\$m
<i>Cash flows from operating activities</i>		
Profit before taxation	3,570	
Adjustments for:		
Depreciation	450	
Investment income	(500)	
Interest expense	400	
	<u>3,920</u>	
Increase in trade and other receivables	(500)	
Decrease in inventories	1,050	
Decrease in trade payables	<u>(1,740)</u>	
Cash generated from operations	2,730	
Interest paid	(270)	
Income taxes paid	<u>(900)</u>	
<i>Net cash from operating activities</i>		1,560
<i>Cash flows from investing activities</i>		
Purchase of property, plant and equipment	(900)	
Proceeds from sale of equipment	20	
Interest received	200	
Dividends received	<u>200</u>	
<i>Net cash used in investing activities</i>		(480)
<i>Cash flows from financing activities</i>		
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<i>Cash and cash equivalents at beginning of period</i>		<u>120</u>
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*This could also be shown as an operating cash flow



Statement of cash flows

Using the direct method

There are different ways in which the **information about gross cash receipts and payments** can be obtained. The most obvious way is simply to extract the information from the accounting records. This may be a laborious task, however, and the indirect method below may be easier. The example and question above used the direct method.



Statement of cash flows

Using the indirect method

This method is undoubtedly **easier** from the point of view of the preparer of the statement of cash flows. The net profit or loss for the period is adjusted for:

- (a) Changes during the period in inventories, operating receivables and payables
- (b) Non-cash items, eg depreciation, provisions, profits/losses on the sales of assets
- (c) Other items, the cash flows from which should be classified under investing or financing activities.



Example



Statement of cash flows

Monty is a publicly listed company. Its financial statements for the year ended 31 March 2013 including comparatives are shown below:

Statements of profit or loss and other comprehensive income for the year ended:



Statement of cash flows

	31 March 2013	31 March 2012
	\$'000	\$'000
Revenue	31,000	25,000
Cost of sales	<u>(21,800)</u>	<u>(18,600)</u>
Gross profit	9,200	6,400
Distribution costs	(3,600)	(2,400)
Administrative expenses	(2,200)	(1,600)
Finance costs – loan interest	(150)	(250)
– lease interest	<u>(250)</u>	<u>(100)</u>
Profit before tax	3,000	2,050
Income tax expense	<u>(1,000)</u>	<u>(750)</u>
Profit for the year	2,000	1,300
Other comprehensive income (note (i))	<u>1,350</u>	<u>nil</u>
	<u>3,350</u>	<u>1,300</u>



Statement of cash flows

Statements of financial position as at:

	31 March 2013		31 March 2012	
	S'000	S'000	S'000	S'000
Assets				
Non-current assets				
Property, plant and equipment		14,000		10,700
Deferred development expenditure		<u>1,000</u>		<u>nil</u>
		15,000		10,700
Current assets				
Inventory	3,300		3,800	
Trade receivables	2,950		2,200	
Bank	<u>50</u>	<u>6,300</u>	<u>1,300</u>	<u>7,300</u>
Total assets		<u>21,300</u>		<u>18,000</u>



Statement of cash flows

Equity and liabilities				
Equity				
Equity shares of \$1 each		8,000		8,000
Revaluation reserve		1,350		nil
Retained earnings		<u>3,200</u>		<u>1,750</u>
		12,550		9,750
Non-current liabilities				
8% loan notes	1,400		3,125	
Deferred tax	1,500		800	
Finance lease obligation	<u>1,200</u>	4,100	<u>900</u>	4,825
Current liabilities				
Finance lease obligation	750		600	
Trade payables	2,650		2,100	
Current tax payable	<u>1,250</u>	<u>4,650</u>	<u>725</u>	<u>3,425</u>
Total equity and liabilities		<u>21,300</u>		<u>18,000</u>



Statement of cash flows

Notes:

- I. On 1 July 2012, Monty acquired additional plant under a finance lease that had a fair value of \$1.5 million. On this date it also revalued its property upwards by \$2 million and transferred \$650,000 of the resulting revaluation reserve this created to deferred tax. There were no disposals of non-current assets during the period.

- II. Depreciation of property, plant and equipment was \$900,000 and amortisation of the deferred development expenditure was \$200,000 for the year ended 31 March 2013.



Statement of cash flows

Required:

a) Prepare a statement of cash flows for Monty for the year ended 31 March 2013, in accordance with IAS 7 Statement of Cash Flows, using the indirect method. (15 marks)



Statement of cash flows

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 20X3

	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Profit before tax	3,000	
Depreciation	900	
Amortisation	200	
Interest payable	400	
Decrease in inventory (W4)	500	
Increase in trade receivables (W4)	(750)	
Increase in trade payables(W4)	550	
Cash generated from operations	<u>4,800</u>	
Interest paid	(400)	
Income tax paid (W3)	<u>(425)</u>	
<i>Net cash from operating activities</i>		3,975
 <i>Cash flows from investing activities</i>		
Purchase of property, plant and equipment (W1)	(700)	
Development expenditure (W1)	<u>(1,200)</u>	
<i>Net cash used in investing activities</i>		(1,900)
 <i>Cash flows from financing activities</i>		
Redemption of loan notes (W3)	(1,725)	
Payments under finance leases (W3)	(1,050)	
Dividend paid (W2)	<u>(550)</u>	
<i>Net cash used in financing activities</i>		<u>(3,325)</u>
<i>Net decrease in cash and cash equivalents</i>		(1,250)
<i>Cash and cash equivalents at beginning of period</i>		<u>1,300</u>
<i>Cash and cash equivalents at end of period</i>		<u><u>50</u></u>



Statement of cash flows

<i>Cash flows from financing activities</i>		
Redemption of loan notes (W3)	(1,725)	
Payments under finance leases (W3)	(1,050)	
Dividend paid (W2)	<u>(550)</u>	
<i>Net cash used in financing activities</i>		<u>(3,325)</u>
<i>Net decrease in cash and cash equivalents</i>		(1,250)
<i>Cash and cash equivalents at beginning of period</i>		<u>1,300</u>
<i>Cash and cash equivalents at end of period</i>		<u><u>50</u></u>

W1-W3



Statement of cash flows

Workings

1 Assets

	<i>PPE</i> \$'000	<i>Development expenditure</i> \$'000
B/d	10,700	–
Revaluation	2,000	
Depreciation/amortisation	(900)	(200)
Non-cash addition (i)	1,500	
Cash paid (β)	700	1,200
C/d	<u>14,000</u>	<u>1,000</u>

2 Equity

	<i>Share capital / premium</i> \$'000	<i>Retained earnings</i> \$'000
B/d	8,000	1,750
SPLOCI		2,000
Cash paid (dividend)	–	(550)
C/d	<u>8,000</u>	<u>3,200</u>



Statement of cash flows

3	<i>Liabilities</i>				
		<i>Loan notes</i>	<i>Tax</i>	<i>Finance leases</i>	<i>Interest</i>
		\$'000	\$'000	\$'000	\$'000
	B/d	3,125	1,525*	1,500**	–
	SPLOCI		1,000		400
	Deferred tax on reval		650		
	Additions			1,500	
	Cash paid (β)	<u>(1,725)</u>	<u>(425)</u>	<u>(1,050)</u>	<u>(400)</u>
	C/d	<u>1,400</u>	<u>2,750</u>	<u>1,950</u>	<u>–</u>

*Deferred and current

**Non-current and current

4	<i>Working capital</i>			
		<i>Inventories</i>	<i>Receivables</i>	<i>Payables</i>
		\$'000	\$'000	\$'000
	B/d	3,800	2,200	2,100
	Movement	<u>(500)</u>	<u>750</u>	<u>550</u>
	C/d	<u>3,300</u>	<u>2,950</u>	<u>2,650</u>

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