

Statement of Changes in Equity

(For the year ended...)

	Share Capital	General Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total
Balance at 30 June 2018	x	x	x	x	Sum of
Comprehensive Income for the year ended					
Dividends					
Transfer to General Reserve					
Issue of Share Capital					
Balance at 30 June 2019	x	x	x	x	Sum of

Week 9 and 10 – Cash Flows

When used in conjunction with other financial reports, Statement of Cashflows enable users to:

- predict future cash flows
- evaluate an entity's financial structure (including liquidity) and its ability to meet its obligations and to pay dividends
- understand the reasons for the difference between profit or loss for a period and the net cash flow from operating activities
- compare the operating performance of different entities

Formatting:

Cash flows to be reported on a *gross basis*.

A *net basis* is allowed only in the following circumstances:

- cash receipts and payment on behalf of customers where this reflects the activities of the customer
- cash receipts and payment where there is quick turnover, large amounts and short maturities

Concept of cash

Cash: cash on hand and demand deposits; includes bank overdrafts

Cash equivalents:

- short-term, highly liquid investments readily convertible into known amounts of cash, and which are subject to an insignificant risk of changes in value;
- held to meet cash commitments and have a short maturity (3 months or less);

Statement of Cash Flows classifications (AASB 107):

- Operating Activities
- Investing Activities
- Financing Activities

Operating Activities

The principal revenue-producing activities of an entity

Direct method (preferred): discloses classes of gross cash receipts and payments. Shows cash flows, therefore: direct method.

- The entity must show a *reconciliation in the notes* from profit to net cash flow from operating activities which is very similar to the indirect method

Indirect method: shows differences between profit and net cash flow from operating activities. The accrual-basis profit is adjusted to a cash-basis operating profit by making adjustments.

Under the *indirect method* the accrual-basis profit/(loss) is adjusted for the effects of:

1. non-cash items (depreciation, amortisation, impairment)
2. items relating to investing or financing activities (non-operating items) and items required by the standard to always be shown as cash flows (interest/dividends received/paid, income tax paid)
3. movements in operating assets and liabilities

The first two types of adjustments are identified by reviewing the income statement.

The third type of adjustments is determined by identifying movements in statement of financial position accounts during the year for all balances that relate to operating activities.

Investing Activities:

The acquisition/disposal of non-current assets and other investments

Financing Activities

Activities that result in size and composition changes in equity capital and borrowings.

Notes to a Cash Flow Statement:

Note to disclose the items included in the cash and cash equivalents balance at the end of the period and to reconcile this balance to cash assets in the statement of financial position (AASB 107, para. 45)

Note to **reconcile the net cash from operating activities** to profit (or loss) (required by AASB 1054 para. 16 if the direct method is used in the statement)

Notes to discuss non-cash financing and investing activities, including acquisition or sale of a subsidiary and of property, plant and equipment (AASB 107, para. 43)

ACCG24 uses the 'analysis of financial statements' approach to prepare the cash flows statement. This method uses comparative B/S with info from the Statement of Comprehensive Income and specific general ledger transactions.

- T Accounts are used to 're-construct' cash flows

The following cash flows can be difficult to construct:

- Receipts from customers
- Payments to suppliers, employees and others
- Income tax paid
- Dividends paid

Receipts from Customers:

Allowance for Doubtful debts			
C/B	X	O/B	X
Bad Debts Written off	?	Dbful. Debts Exp	X
Total Dr	X	Total Cr	X

Accounts Receivable			
O/B	X	C/B	X
Sales	X	Bad Debts Written Off	X
Total Dr	X	Cash Received	?
		Total Cr	X

Calculating Payments to Suppliers, Employees and Others

Payments to suppliers:

Includes payments paid for

- Inventory purchased
- All other supplies and services purchased

Includes:

- Payments for purchases made in prior years that are paid in the current year
- Prepayments made in the current year that will be expensed in future years

Excludes:

- Purchases made in the current year where cash will be paid in a future year
- Expenses recognized in the current year that were prepaid in prior years.

Inventory			
O/B	X	C/B	X
Purchased	?	COGS	X
Total Dr	X	Total Cr	X

Accounts Payable			
C/B	X	O/B	X
Discount Received	X	Purchases	X
Cash Paid	?		
Total Dr	X	Total Cr	X

Note: Need to consider the impact of discounts given by suppliers when calculating the cash movements in accounts payable

Cash Paid will need to be added to payments to suppliers and employees

Calculating final number to be put on CFS

Total Other expense in Income Statement	X
+ Increase in prepayment during the year (Diff between Comparative Yrs)	X
+ Decrease in other payables during the year (Diff between Comparative Yrs)	X
Cash paid for other supplies and services (Sum of above)	X
Cash paid for inventory	X
Total Payments to suppliers, employees and others **CFS**	X

If net movement of prepayments/other payables is

DR > Add back to (increase) expenses

CR > Deduct from (decrease) expense

Calculating Interest Paid

Interest Paid			
C/B	X	O/B	X
Cash Paid	?	Interest Expense	X
Total Dr	X	Total Cr	X

Calculating Income Tax Paid

Current tax Liability			
C/B	X	O/B	X
Decrease in DTL	X	Income Tax Expense	X
Cash Paid	?	Increase in DTA	X
Total Dr	X	Total Cr	X

Calculating Property, Plant and Equipment

Plant and Equipment			
O/B	X	C/B	X
Cash Paid	?	Plant Sold (cost)	X
Total Dr	X	Total Cr	X

Calculating Interest received

Plant and Equipment			
O/B	X	C/B	X
Interest revenue	X	Cash Received **CFS*	?
Total Dr	X	Total Cr	X

Limitations of the CFS

- Only past cash flows are reported
- Non-cash transactions and events are not included
- Much detail is included in the notes
- Liquidity/solvency evaluation are not adequately addressed

Direct method

Company Name Statement of Cash Flows For the year ended...	
<i>Cash flows from operating Activities</i>	
Receipts from customers	X
Payments to suppliers and employees	(X)
Cash generated from operations	X (Sum of above)
Interest Paid	(X)
Income Tax Paid	(X)
Net cash from operating activities	X
<i>Cash generated from Investing Activities</i>	
e.g. Purchase of plant	(X)
Net cash from Investing Activities	(X)
<i>Cash Generated from Financing Activities</i>	
e.g. proceeds from borrowing	X
e.g. Dividends Paid	(X)
Net cash from Financing Activities	X
Net increase/decrease in cash and cash equivalents	X (sum of below)
Cash and cash equivalents at beginning of the year	X
Cash and cash equivalents at the end of the year	X

Company Name Reconciliation from profit to net cash from operating activities For the year ended...	
<i>Profit after income tax</i>	X
Depreciation Expense	X
Gain on Sale of PPE	(X)
Interest Revenue	(X)
Increase in accounts receivable (net)	(X)
Increase in inventory	(X)
Increase in prepayments	(X)
Increase in deferred tax assets	(X)
Decrease in accounts payable	(X)
Increase in Interest Payable	X
Decrease in other payables	(X)
Increase in deferred tax liabilities	X
Increase in current tax liabilities	X
Net cash flow from operating activities	(X)

Indirect method

Company Name Statement of Cash Flows For the year ended...	
<i>Profit before income tax</i>	X
Depreciation Expense	X
Gain on Sale of PPE	(X)
Interest Revenue	(X)
Interest Expense	X
Increase in accounts receivable (net)	(X)
Increase in inventory	(X)
Decrease in accounts payable	(X)
Increase in repayments	(X)
Decrease in other payables	(X)
Cash used in operations	(X)
Interest Paid	(X)
Income Tax Expense	(X)
Net cash flows from Operating Activities	
<i>Cash generated from Investing Activities</i>	
e.g. Purchase of plant	(X)
Net cash from Investing Activities	(X)
<i>Cash Generated from Financing Activities</i>	
e.g. proceeds from borrowing	X
e.g. Dividends Paid	(X)
Net cash from Financing Activities	X
Net increase/decrease in cash and cash equivalents	X (sum of below)
Cash and cash equivalents at beginning of the year	X
Cash and cash equivalents at the end of the year	X