

# IAS 7 – *Statement of Cash flows*

- 🌱 Creating a cash flow statement
- 🌱 The formulas are provided in the study guide
- 🌱 Do you understand why the formulas work?

# IAS 7 – Statement of Cash flows

## Techworks Ltd: Statement of cash flows for the year ended 30 June 2016

☛ Cash flow from **operations**

☛ Cash flow from **investing**

☛ Cash flow from **financing**

☛ Explains the movement between

☛ Opening Cash balance; and

☛ Closing cash balance

	Notes	2016 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers		2,122,837
Payments to suppliers and employees		(1,842,350)
Interest received		(1,226)
Income tax paid		(100,837)
<b>Net cash from operating activities</b>	22b	<b>180,876</b>
<b>Cash flows from investing activities</b>		
Investments in financial assets		1,250
Payments for intangibles		(5,820)
Payments for property, plant and equipment		(52,779)
<b>Net cash used in investing activities</b>		<b>(57,349)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings		90,268
Interest on borrowings		(5,651)
Share scrip issue		10,000
Dividends paid		(172,770)
<b>Net cash used in financing activities</b>		<b>(78,153)</b>
<b>Net increase in cash and cash equivalents</b>		<b>45,374</b>
<b>Cash and cash equivalents at the beginning of the year</b>	22(a)	<b>24,696</b>
<b>Cash and cash equivalents at end of the year</b>	22(a)	<b>70,070</b>



# Lowfunds Example (FR Module 2)

## Financial information

The following financial information was obtained for Lowfunds Ltd.

### Statement of profit or loss and other comprehensive income of Lowfunds Ltd for the year ended 30 June 20X3

	\$'000	\$'000
Sales		920
Interest revenue		11
Dividends revenue		<u>5</u>
		936
Less: Expenses		
Cost of sales	320	
Other expenses	15	
Employee benefits expense	266	
Interest expense	14	
Depreciation—plant	95	
Loss on sale of plant	<u>10</u>	<u>(720)</u>
Profit before income tax		216
Less: Income tax expense		<u>(74)</u>
Profit for the year		<u>142</u>

### Retained earnings of Lowfunds Ltd for the year ended 30 June 20X3

# Reconciling ledger accounts

- 🌿 Template approach – step by step reconstruction

<b>Cash flow from operations</b>	<b>\$</b>
<b>Cash receipts from customers</b>	
Payments to suppliers	
Payments to employees	
Interest paid	
Income taxes paid	
<b>Net cash flow from operations</b>	

# Warning!!!

- 🌱 There is no 'magic' in these templates – only logic
- 🌱 The logic is based on reconciling T accounts to find the 'cash' amount
- 🌱 Try to focus on understanding the logic of the templates, not memorising them – if you don't understand them, you won't be able to 'adapt them' them different questions / situations
- 🌱 Don't rush – building a cash flow statement takes time. Don't get frustrated or give up. Just slowly work through the steps.

# Cash receipts from customers

- Step 1: Not all the credit sales from last period will have been collected during that period. These will be collected this period. This will be shown in the opening balance of Trade Receivables so we add this.

<b>Cash receipts from customers</b>	<b>\$</b>
➔ Add opening balance of trade receivables	

# Cash receipts from customers

- Step 2: Sales revenue during the period is expected to be collected as cash. So we add this. There will be some 'bad debts' not collected and some credit sales not collected this period – we adjust this later.



<b>Cash receipts from customers</b>	<b>\$</b>
Add opening balance of trade receivables	
Add Sales Revenue	

# Cash receipts from customers

- Step 3: If there are bad debts written off this component of sales revenue will not be collected as cash. So, we need to deduct bad debts written off.

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		
Add Sales Revenue		
<b>(Less bad debts written off)</b>		
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
<b>(Less ending balance of Provision for Doubtful Debts)</b>		





# Cash receipts from customers

- 🌱 **Step 3:** If there are bad debts written off this component of sales revenue will not be collected as cash. So, we need to deduct bad debts written off.
- 🌱 A sale occurs:
  - DR Accounts Receivable
  - CR Sales Revenue
- 🌱 A bad debt occurs:
  - DR Doubtful debts expense
  - CR Allowance for doubtful debts**
- 🌱 When a bad debt is recognised, the contra-asset 'allowance for doubtful debts' is increased.
- 🌱 A bad debt is written off:
  - DR Allowance for doubtful debts**
  - CR Accounts Receivable
- 🌱 But, when a bad debt is written off, this allowance is decreased.
- 🌱 To calculate bad-debts written off, look at the opening balance and add the doubtful debts expense
  - 🌱 The difference to the closing balance must be 'bad debts written off'

# Cash receipts from customers

- Step 4: And credit sales during the period that are not going to be collected until the next period need to be deducted from the total 'Sales Revenue'.

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		
Add Sales Revenue		
<b>(Less bad debts written off)</b>		
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
<b>(Less ending balance of Provision for Doubtful Debts)</b>		
<b>(Less closing balance of Trade Receivables)</b>		



# Cash receipts from customers

- You have now calculated Cash receipts from customers. It is important to understand why this template works, as there is 'business logic' that indicates when the cash is being collected

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		
Add Sales Revenue		
<b>(Less bad debts written off)</b>		
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
<b>(Less ending balance of Provision for Doubtful Debts)</b>		
<b>(Less closing balance of Trade Receivables)</b>		
<b>Cash receipts from customers</b>		



# Cash receipts from customers – Lowfunds Ltd

- 🌱 You should pause the video and see if you can work out the cash receipts from customers for Lowfunds Ltd
  - 🌱 Once you have attempted this, continue watching to compare your answer

## Statement of profit or loss and other comprehensive income of Lowfunds Ltd for the year ended 30 June 20X3

	\$'000	\$'000
Sales		920
Interest revenue		11
Dividends revenue		<u>5</u>
		<u>936</u>

## Statement of financial position of Lowfunds Ltd as at 30 June 20X2 and 20X3

	20X2 \$'000	20X3 \$'000
Current assets		
Deposits at call	131	277
Trade receivables	210	245

# Cash receipts from customers – Lowfunds Ltd

- Step 1: Not all the credit sales from last period will have been collected during that period. These will be collected this period. This will be shown in the opening balance of Trade Receivables so we add this.



<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		210,000
Add Sales Revenue		
<b>(Less bad debts written off)</b>		
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
<b>(Less ending balance of Provision for Doubtful Debts)</b>		
<b>(Less closing balance of Trade Receivables)</b>		
<b>Cash receipts from customers</b>		

# Cash receipts from customers – Lowfunds Ltd

- Step 2: Sales revenue during the period is expected to be collected as cash. So we add this. There will be some 'bad debts' not collected and some credit sales not collected this period – we adjust this later.

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		210,000
Add Sales Revenue		920,000
<b>(Less bad debts written off)</b>		
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
<b>(Less ending balance of Provision for Doubtful Debts)</b>		
<b>(Less closing balance of Trade Receivables)</b>		
<b>Cash receipts from customers</b>		



# Cash receipts from customers – Lowfunds Ltd

- Step 3: If there are bad debts written off this component of sales revenue will not be collected as cash. So, we need to deduct bad debts written off.

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		210,000
Add Sales Revenue		920,000
(Less bad debts written off)		0
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
(Less ending balance of Provision for Doubtful Debts)		
(Less closing balance of Trade Receivables)		
<b>Cash receipts from customers</b>		



# Cash receipts from customers – Lowfunds Ltd

- Step 4: And credit sales during the period that are not going to be collected until the next period need to be deducted from the total 'Sales Revenue'.

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		210,000
Add Sales Revenue		920,000
(Less bad debts written off)		0
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
(Less ending balance of Provision for Doubtful Debts)		
(Less closing balance of Trade Receivables)		-\$245,000
<b>Cash receipts from customers</b>		





# Cash receipts from customers – Lowfunds Ltd

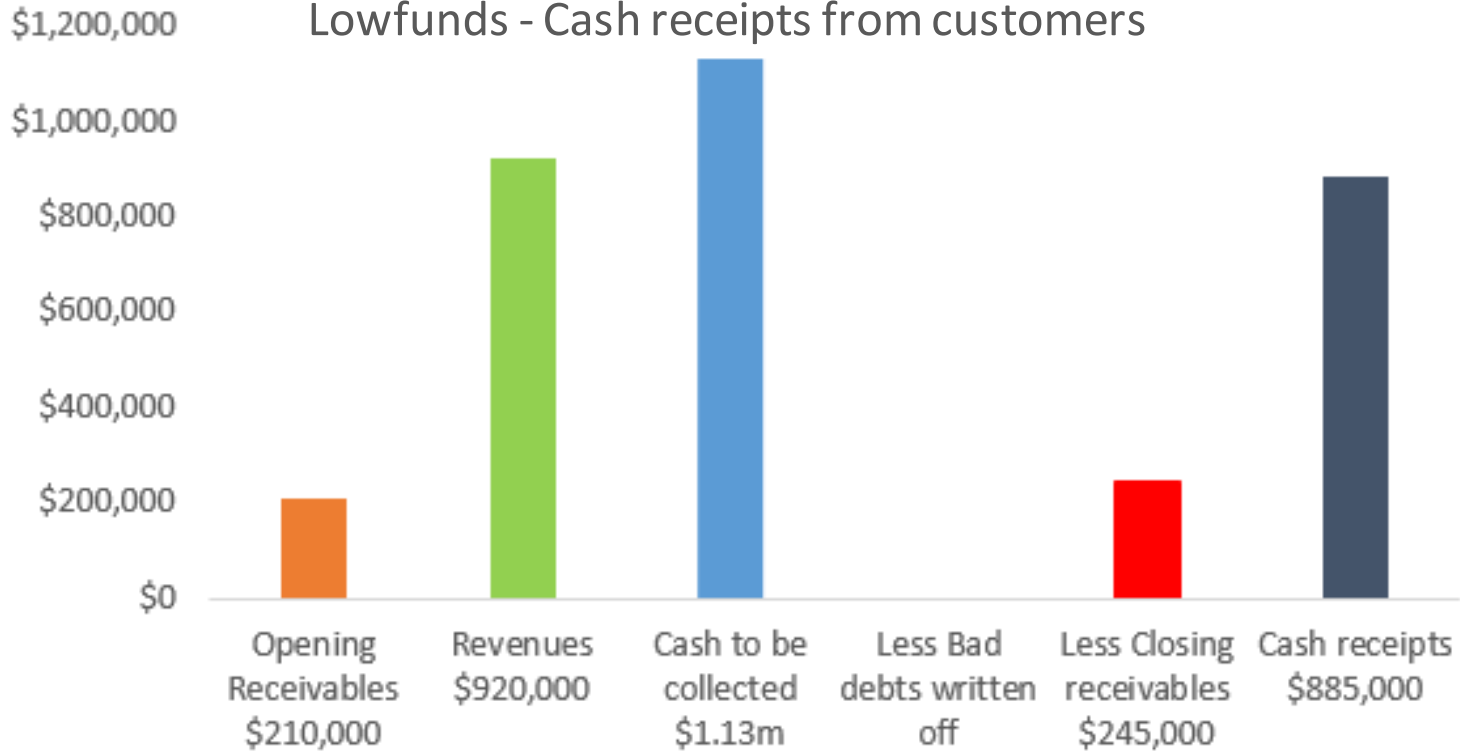
- You have now calculated Cash receipts from customers. It is important to understand why this template works, as there is 'business logic' that indicates when the cash is being collected

<b>Cash receipts from customers</b>		<b>\$</b>
Add opening balance of trade receivables		210,000
Add Sales Revenue		920,000
(Less bad debts written off)		0
Add Opening balance of allowance for doubtful debts		
Add bad debts / doubtful debts expense		
(Less ending balance of Provision for Doubtful Debts)		
(Less closing balance of Trade Receivables)		-\$245,000
<b>Cash receipts from customers</b>		<b>\$885,000</b>



# Cash receipts – Graphical form & T-Ledger

Lowfunds - Cash receipts from customers



<b>Accounts Receivable</b>			
DR Opening Balance	\$210,000	<b>CASH RECEIPTS</b>	\$885,000
DR Sales Revenue	\$920,000	CR Closing Balance	\$245,000
<b>TOTAL</b>	<b>\$1,130,000</b>	<b>TOTAL</b>	<b>\$1,130,000</b>

# Cash flow from operations

- 🌱 Cash receipts from customers is now calculated
- 🌱 Next we need to consider payments to suppliers and employees

<b>Cash flow from operations</b>		
Cash receipts from customers		\$885,000
Payments to suppliers		?
Payments to employees		?
Interest paid		?
Income taxes paid		?
<b>Net cash flow from operations</b>		<b>?</b>

# Cash payments to suppliers

🌿 Need to adjust 2 key areas:

## **i) Inventory**

🌿 cash paid for inventory needs to be included

## **ii) Payables**

🌿 cost of sales needs adjusting for credit purchases not paid

# Cash payments to suppliers

## Logic:

- Cost of Goods Sold reflects all the inventory purchased and sold. This needs to be adjusted for:
  - Inventory purchased in the current period but not yet sold (so we add this)
  - Inventory purchased in a previous period and paid for previously (so we deduct this)

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	
Add Cost of Goods Sold / Cost of Sales	
(Less opening balance of Inventory)	
<b>Inventory purchased on credit</b>	

# Cash payments to suppliers

## Logic:

- Any trade payables owed at the start of the period will be 'paid' for this period (so we add this)
- Any other expenses during the period are expected to be paid for (so we add this)
- The closing balance of trade payables shows what we haven't paid for yet (so we deduct this)

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	
Add Cost of Goods Sold / Cost of Sales	
(Less opening balance of Inventory)	
<b>Inventory purchased on credit</b>	
Add opening balance of Trade Payables	
Add other expenses	
(less closing balance of Trade Payables)	
<b>Cash payments to suppliers</b>	

# Cash payments to suppliers

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	\$335,000
Add Cost of Goods Sold / Cost of Sales	\$320,000
(Less opening balance of Inventory)	(\$285,000)
<b>Inventory purchased on credit</b>	<b>\$370,000</b>
Add opening balance of Trade Payables	
Add other expenses	
(less closing balance of Trade Payables)	
<b>Cash payments to suppliers</b>	

# Cash payments to suppliers

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	\$335,000
Add Cost of Goods Sold / Cost of Sales	\$320,000
(Less opening balance of Inventory)	(\$285,000)
<b>Inventory purchased on credit</b>	<b>\$370,000</b>
Add opening balance of Trade Payables	\$90,000
Add other expenses	
(less closing balance of Trade Payables)	
<b>Cash payments to suppliers</b>	



# Cash payments to suppliers

- Step 1: Take other expenses. These are going to be paid this year...
- Step 2: Adjust for accruals and prepayments – note there are no relevant items to adjust in this example.

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	\$335,000
Add Cost of Goods Sold / Cost of Sales	\$320,000
(Less opening balance of Inventory)	(\$285,000)
<b>Inventory purchased on credit</b>	<b>\$370,000</b>
Add opening balance of Trade Payables	\$90,000
Add other expenses	\$15,000
(less closing balance of Trade Payables)	
<b>Cash payments to suppliers</b>	

# Cash payments to suppliers

<b>Cash payments to suppliers</b>	<b>\$</b>
Add closing balance of Inventory	\$335,000
Add Cost of Goods Sold / Cost of Sales	\$320,000
<b>(Less opening balance of Inventory)</b>	<b>(\$285,000)</b>
<b>Inventory purchased on credit</b>	<b>\$370,000</b>
Add opening balance of Trade Payables	\$90,000
Add other expenses	\$15,000
<b>(less closing balance of Trade Payables)</b>	<b>(\$100,000)</b>
<b>Cash payments to suppliers</b>	<b>\$375,000</b>

# Cash flow from operations

- Next we need to consider payments to employees

<b>Cash flow from operations</b>		
Cash receipts from customers		\$885,000
Payments to suppliers		(\$375,000)
Payments to employees		?
Interest paid		?
Income taxes paid		?
<b>Net cash flow from operations</b>		?

# Cash paid to employees

- Step 1: Take employee benefits expense. This is expected to be paid in the period.

<b>Cash payments to employees</b>	
Employee benefits expense	\$266,000

# Cash paid to employees

🌱 Step 2: Adjust for accruals paid during the period

(This information for Lowfunds is in the extra 'dot point notes' under the balance sheet)

<b>Cash payments to employees</b>	
Employee benefits expense	\$266,000
➔ Add opening balance of accruals - wages	\$5,000
Cash to be paid out	<b>\$271,000</b>

# Cash paid to employees

- Step 3: Now adjust for closing accruals which are not yet paid. These are deducted because you have not paid this portion of the employee benefits expense during the period.

<b>Cash payments to employees</b>	
Employee benefits expense	\$266,000
Add opening balance of accruals - wages	\$5,000
Cash to be paid out	<b>\$271,000</b>
→ (Less closing balance of accruals - wages)	<b>(\$10,000)</b>
Cash paid to employees	<b>\$261,000</b>

# Cash flow from operations

🌱 Next we need to consider Interest Paid

<b>Cash flow from operations</b>		
Cash receipts from customers		\$885,000
Payments to suppliers		(\$375,000)
Payments to employees		(\$261,000)
Interest paid		?
Income taxes paid		?
<b>Net cash flow from operations</b>		?

# Interest paid

- Step 1: Take interest expense. This is expected to be paid.



<b>Interest paid</b>	
Interest expense	\$14,000



# Interest paid

- Step 2: Add the accrued interest from last period to be paid out as cash this period (The accruals information is in the extra information 'dot points' under the balance sheet for Lowfunds)

<b>Interest paid</b>	
Interest expense	\$14,000
➔ Add opening balance of accruals - interest	\$15,000
Cash to be paid out	<b>\$29,000</b>

# Interest paid

- Step 3: Now adjust for closing accruals which are not yet paid, so we deduct this from the total amount. (It will be paid in the next period).

<b>Interest paid</b>	
Interest expense	\$14,000
Add opening balance of accruals - interest	\$15,000
Cash to be paid out	<b>\$29,000</b>
→ (Less closing balance of accruals - interest)	<b>(\$20,000)</b>
Interest paid	<b>\$9,000</b>

# Cash flow from operations

🌱 Next we need to consider Income Taxes Paid

<b>Cash flow from operations</b>		
Cash receipts from customers		\$885,000
Payments to suppliers		(\$375,000)
Payments to employees		(\$261,000)
Interest paid		(\$9,000)
Income taxes paid		?
<b>Net cash flow from operations</b>		?

# Income taxes paid

- Step 1: Take the current income tax expense, which should be paid this period.

<b>Income taxes paid</b>	
Income tax expense	\$74,000

# Income taxes paid

- Step 2: Add the tax payable from last period that will be paid out as cash this period.

<b>Income taxes paid</b>	
Income tax expense	\$74,000
➔ Add opening balance of current tax payable	\$45,000
Cash to be paid out	<b>\$119,000</b>

# Income taxes paid

- Step 3: Deduct the closing balance as this represents amount that have not been paid yet, and will be paid in the next period.

<b>Income taxes paid</b>	
Income tax expense	\$74,000
Add opening balance of current tax payable	\$45,000
Cash to be paid out	<b>\$119,000</b>
(Less closing balance of current tax payable)	<b>(\$80,000)</b>
→ Adjusted amount	<b>\$39,000</b>

# Income taxes paid

- Step 4: Don't forget the Non-Current DTA and DTL!!!
- In this situation there is only a DTL in the balance sheet.

<b>Income taxes paid</b>	
Income tax expense	\$74,000
Add opening balance of current tax payable	\$45,000
Cash to be paid out	<b>\$119,000</b>
(Less closing balance of current tax payable)	<b>(\$80,000)</b>
Adjusted amount	<b>\$39,000</b>
➔ Add opening balance of deferred tax liability	\$16,000
➔ (Less closing balance of deferred tax liability)	<b>(\$10,000)</b>
<b>Income tax paid</b>	<b>\$45,000</b>

# Cash flow from operations

🌱 Now it's time for cash flow from investing and financing

<b>Cash flow from operations</b>		
Cash receipts from customers		\$885,000
Payments to suppliers		(\$375,000)
Payments to employees		(\$261,000)
Interest paid		(\$9,000)
Income taxes paid		(\$45,000)
<b>Net cash flow from operations</b>		<b>\$195,000</b>



# Cash flows from investing/financing

Step 1: Identify relevant item in income statement

Step 2: Take the opening balance

Step 3: Compare to the closing balance

Step 4: Identify any non-cash changes

Step 5: Reconcile to identify cash amount

Interest Revenue  
\$11,000

Interest Receivable (opening)  
\$20,000

Interest Receivable (closing)  
\$15,000

Not applicable

$\$11,000 + (\$20,000 - \$15,000)$   
\$16,000

# Interest received

<b>Interest received</b>	
Interest revenue	\$11,000
Add opening balance of interest receivable	\$20,000
<b>Interest to be received as cash</b>	<b>\$31,000</b>
(less closing balance of interest receivable)	<b>(\$15,000)</b>
<b>Interest received</b>	<b>\$16,000</b>

# Dividends received

<b>Dividends received</b>	
Dividend revenue	\$5,000
Add opening balance of dividend receivable	\$0
<b>Dividends to be received as cash</b>	<b>\$5,000</b>
(less closing balance of dividend receivable)	\$0
<b>Dividends received</b>	<b>\$5,000</b>

# Proceeds from sale of plant

<b>Proceeds from sale of plant</b>	
Loss on sale of plant	<b>(\$10,000)</b>
Add cost of asset	\$60,000
(Less Accumulated Depreciation of asset)	<b>(\$30,000)</b>
<b>Cash proceeds received from sale</b>	<b>\$20,000</b>

- During the year, plant & equipment was
  - Cost: \$60,000
  - Accumulated Depreciation: \$30,000
  - Book value: \$30,000

# Payment for plant

<b>Payment for plant</b>	
Closing balance of Plant (at cost)	\$2,115,000
Less opening balance of Plant (at cost)	(\$1,760,000)
<b>Increase in Plant</b>	<b>\$355,000</b>

- Unless there are other non-cash explanations, the increase in plant is likely to be a cash purchase.
- However, we need to consider sales of plant assets – as these will adjust the balances.

# Payment for plant

<b>Payment for plant</b>	
Closing balance of Plant (at cost)	\$2,115,000
Less opening balance of Plant (at cost)	(\$1,760,000)
<b>Increase in Plant</b>	<b>\$355,000</b>
→ Adjust for Plant sold during period	\$60,000
<b>Total cash paid</b>	<b>\$415,000</b>

- 🌱 The plant sold during the period reduced the closing balance by \$60,000. But, this was a non-cash item.
- 🌱 So we need to add this back to get the total cash paid.

# Cash flow from investing

<b>Cash flow from investing</b>	
Interest received	\$16,000
Dividends received	\$5,000
Proceeds from sale of plant	\$20,000
Payment for plant	(\$415,000)
<b>Net cash flow from investing</b>	<b>(\$374,000)</b>

# Proceeds from share issue

<b>Proceeds from share issue</b>	
Share capital closing balance	\$2,250,000
➔ Less opening balance of share capital	(\$1,550,000)
<b>Increase in share capital</b>	<b>\$700,000</b>
➔ Adjust for convertible notes conversion	(\$300,000)
<b>Cash proceeds from share issue</b>	<b>\$400,000</b>

- 200,000 shares were issued at \$2.00 per share for cash.
- Convertible notes were converted (150,000 shares issued at \$2.00 each)
  - This is a non-cash item



# Dividend paid

<b>Dividend Paid</b>	
Opening balance of dividends payable	\$0
Interim dividend & Final dividend	\$60,000
(Less closing balance of dividends payable)	<b>\$0</b>
<b>Dividends paid</b>	<b>\$60,000</b>

# Cash flow from financing

<b>Cash flow from financing</b>	
Proceeds from share issue	\$400,000
Dividend paid	(\$60,000)
<b>Net cash flow from financing</b>	<b>\$340,000</b>

# We made it!!

<b>Lowfunds</b>	
<b>Cash flow from operations</b>	
Cash receipts from customers	\$885,000
Payments to suppliers	(\$375,000)
Payments to employees	(\$261,000)
Interest paid	(\$9,000)
Income taxes paid	(\$45,000)
<b>Net cash flow from operations</b>	<b>\$195,000</b>
<b>Cash flow from investing</b>	
Interest received	\$16,000
Dividends received	\$5,000
Proceeds from sale of plant	\$20,000
Payment for plant	(\$415,000)
<b>Net cash flow from investing</b>	<b>(\$374,000)</b>
<b>Cash flow from financing</b>	
Proceeds from share issue	\$400,000
Dividend paid	(\$60,000)
<b>Net cash flow from financing</b>	<b>\$340,000</b>
Net increase in cash held	\$161,000
Cash at beginning (\$131 - \$80 O/D)	\$51,000
Cash at end (\$277 - \$65 O/D)	\$212,000



KNOWLEDGE EQUITY

The image features the text "KNOWLEDGE EQUITY" centered horizontally. The word "KNOWLEDGE" is in a dark grey, serif font, and "EQUITY" is in a lighter grey, serif font. The letter "E" in "EQUITY" is highlighted in a vibrant green color. Above and below the text are two identical green, leaf-like or flame-like graphics, each consisting of three curved, overlapping shapes that taper to a point.