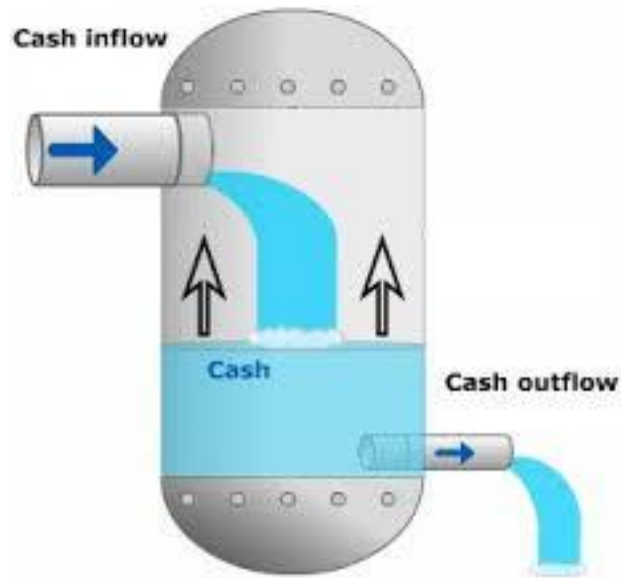


STATEMENT OF CASH FLOWS



PREPARING STATEMENT OF CASH FLOWS FROM ACCOUNTING REPORTS

Step	Instruction	Side Notes
1	In the 'Net Increase / (Decrease) in Cash Position' row, write the difference between the Cash Receipts and the Cash Payments.	If this difference is a negative number (i.e. Cash Payments amount is greater than Cash Receipts amount) indicate this decrease with the use of (Brackets). This amount will then be used as a cross-checking mechanism when compared to the total of the three sub-totals of each section of the Report.
2	Remember to exclude discounts from Accounts Receivable and Accounts Payable cash flows.	The new figures in the Accounts Receivable and Accounts Payable will be used in the Operating section to reflect the actual Accounts Receivable receipts and payments to Accounts Payable.
3	Exclude Cost of sales	The Cash Flow Statement only reports movements of cash. This amount represents the allocated cost to the business of the items sold.
4	Financing Activities Capital Loan Drawings Loan	Cash flows relating to the financial structure of the business
5	Investing Activities Motor Vehicle (name of Non-Current Asset)	Cash flows relating to the purchase and proceeds from disposal (Unit 4) of Non-Current Assets.
6	Operating Activities	Everything else!
7	Complete the Final 3 lines of the Report.	You might be required to determine the Cash at Bank (start) amount by carrying forward an amount from an earlier section of the question.

Reminders / Footnotes

Cash Receipts and Cash Payments only.

Middle column used to list items / column on the right hand side is used to total these items.

For each section, list Inflows first and then Outflows.

Indicate Outflows by placing brackets around the numbers listed in the Report.

3 GSTs! This is your chance to write GST Settlement or GST Refund as well as the conventional GST Collected and GST Paid.

Remember that a Statement of Cash Flows is simply the Bank Ledger or Bank Account. **Inflows** (receipts) are debits and **outflows** (payments) are credits (show in brackets).

Information is usually obtained from the Receipts & Payments Statement. Remember to individually report items listed in the "Sundries" Columns.

Information cannot be obtained from a Trial Balance apart from the Bank Balance.

A Cash Flow Statement is prepared for the reasons of Understandability and Relevance to improve decision-making.

CASH FLOW STATEMENTS

All businesses must have sufficient cash available to meet their financial obligations and preferably sufficient cash reserves to enable the ongoing growth and development of the business.

OPERATING ACTIVITIES

Operating Cash Flows result from the provision of goods and services in terms of day to day operations. This is the internal cash generated by the business and reduces the reliance on external sources to finance the business.

Includes:

- Interest is an operating item.
- "Prepaid expenses" must be shown with correct title.
- "Accrued items paid" in the next period must be shown with the correct title.
- Remember to deduct the discounts from Accounts Receivable & Accounts Payable before reporting the amounts collected or paid.
- GST paid on expenses and purchases.
- GST collected from cash sales.
- GST paid to ATO.
- GST refund from ATO.
- Inventory purchases for cash.
- All cash expenses.

INVESTING ACTIVITIES

Cash flows that result from the purchase or sale of a non-current asset. E.g. Purchase of vehicle and cash proceeds from sale of vehicle.

Do not include the purchase of non-current assets on credit. Only record cash payments (including deposits and instalments).

FINANCING ACTIVITIES

Cash flows that have occurred as a result of changes in a firm's financial structure. E.g. New loans or loan repayments. Cash contributions or cash withdrawals.

- Do not include non-cash drawings or non-cash capital contributions. E.g. Inventory or a computer.
- New loans are Inflows.

DISTINCTION BETWEEN CASH AND PROFIT

Cash and Profit are significantly different resources. Cash flow relates to all **cash receipts** less **cash payments** whereas profit relates to **revenues earned** less **expenses incurred**.

Use the information provided in the Statement of Cash Flows and the INCOME STATEMENT.

OPERATING ACTIVITIES

Decreasing Cash but Increasing Profit

Cash Statement

Accounts Receivable receipts **lower than**

Prepaid expenses **higher than**

Accounts Payable payments and inventory cash purchases **higher than**

GST paid greater than GST received

No effect

No effect

Profit Statement

Credit Sales

Actual Expenses

Cost of sales

No effect

Inventory Gain

Discount Revenues

Accounts Receivable receipts and credit sales is the same item but they vary due to timing differences in a reporting period.

Accounts Payable payments and cost of sales is the same item but they vary due to timing differences in a reporting period.

Increasing Cash but Decreasing Profit

Cash Statement	Profit Statement
Accounts Receivable Collections <i>higher than</i>	Credit Sales ←
Paid expenses <i>lower than</i>	Actual Expenses due to accruals
Accounts Payable payments and Inventory cash purchases <i>lower than</i>	Cost of sales ←
GST receipts greater than GST paid	No effect
No effect	Inventory Loss
No effect	Discount Expenses
No effect	Depreciation
No effect	Inventory write-down

Accounts Receivable receipts and credit sales is the same item but they vary due to timing differences in a reporting period.

Accounts Payable payments and cost of sales is the same item but they vary due to timing differences in a reporting period.

INVESTING ACTIVITIES

Purchases of Asset do not affect profit (except for depreciation).

FINANCING ACTIVITIES

- New Loans will increase cash but no effect on profit.
- New Capital will increase cash but no effect on profit.
- Loan repayments will reduce cash but no effect on profit.
- Cash drawings will reduce cash but no effect on profit.

NB. Record interest amounts in **Operating Activities**.

Remember when commenting on a Statement of Cash Flows:

DO NOT use terms such as Profit / Losses / Gains to explain movements in cash.

E.g. The business made a profit when referring to operating activities.

USE terms such as Surplus / Deficit / Positive / Negative.

STATEMENT OF CASH FLOWS TEMPLATE

Business Name

Cash flow statement for period (date)

Cash Flows from Operating Activities	\$	\$
Cash Sales		
Accounts receivable receipts		
Interest received		
GST received		
Accounts Payable payments	()	
Cash purchases of Inventory	()	
Wages paid	()	
Accrued Wages (Unit 4)	()	
Prepaid rent expense (Unit 4)	()	
Interest expense	()	
Other expenses paid	()	
GST paid	()	
GST settlement to ATO	()	
Net Cash Flows from Operating Activities		
Cash Flows from Investing Activities		
Cash proceeds from disposal of assets (Unit 4)		
Cash purchase of non-current assets	()	
Progress payments/deposits	()	
Net Cash Flows from Investing Activities		
Cash Flows from Financing Activities		
Capital contributions		
New Loans		
Drawings	()	
Loan Repayments	()	
Net Cash Flows from Financing Activities		
Net Increase/Decrease in Cash Position		
Bank Balance at Start (Date:)		
Bank Balance at End (Date:)		

DO NOT INCLUDE THE FOLLOWING ITEMS IN A CASH FLOW STATEMENT

ALIENS



- Credit Sales.
- Credit purchase of Inventory.
- Credit purchase of non-current assets.
- Depreciation.
- Discount expense and discount revenue.
- Drawings of assets other than cash. **E.g. Inventory.**
- Capital contributions of assets other than cash. **E.g. Computer.**
- Accrued expenses in current period. **E.g. Wages owing.**
- Cost of sales.
- Inventory gains or losses.
- Bad debts
- Profit or loss on disposal of non-current assets.

None of these transactions involve any movement of cash in the current reporting period.

QUESTION 22

Identify several reasons that could explain why a change in cash is **higher** than the profit for a period.

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10

QUESTION 23

Using the Receipts & Payments Statement shown below prepare a Statement of Cash Flows for the Month ended 30th June 2019.

Sue Keeney
Receipts & Payments Statement for the month ended 30 June 2019

	\$	\$
Cash Receipts		
Receipts from Accounts Receivable	4 330	
Cash Sales	3 400	
GST received	340	
Capital contribution	5 000	
Loan – CAB Bank	10 000	23 070
Less: Cash Payments		
Payments to Accounts Payable	2 680	
Cash purchases of inventory	4 900	
Wages	800	
GST paid	1 380	
Advertising	200	
Cartage inwards	500	
Furniture & Fittings	6 200	
Drawings	800	
GST settlement to ATO	1 450	
Loan repayment - CAB Bank	400	
Rent	2 000	21 310
Net Increase (Decrease) in Cash Position		1 760
Bank Balance—1 June 2019		-3 230
Bank Balance—30 June 2019		-1 470

QUESTION 24

Tom Arto operates an organic vegetable business. He sells vegetables for cash and 30 day credit terms. He operates the perpetual Inventory recording system using the FIFO costing method. The business commenced on 1st January 2019.

The following information has been provided for the month of January 2019.

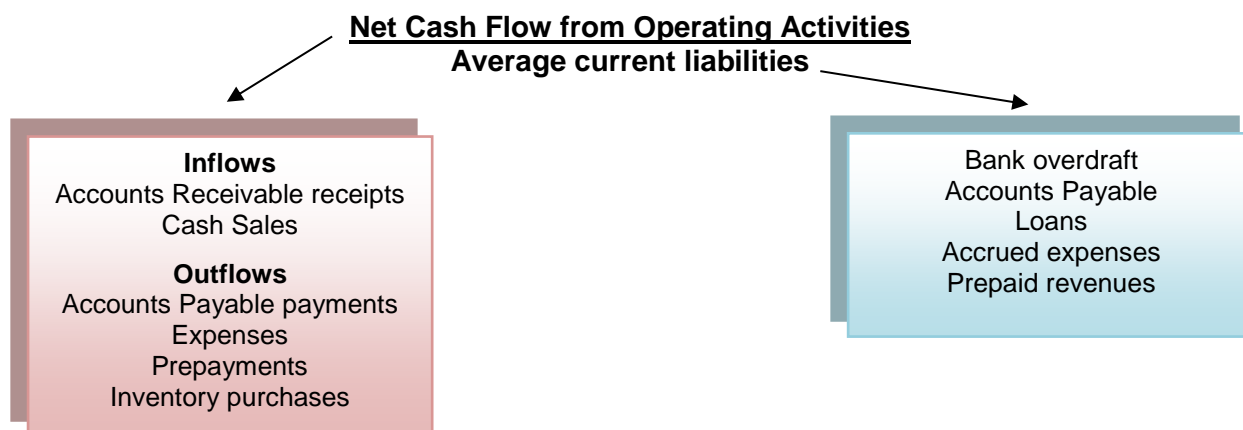
- Received amount owing from Accounts Receivable \$30 000 incl. \$1 500 discount.
- Cost of sale \$15 000
- Cash sales \$22 500 plus GST
- Owner contributed \$16 000 cash and personal computer (fair value \$2 000)
- Borrowed \$24 000 from MBA Bank
- Bank interest directly debited on Bank Statement \$300
- Paid amount owing to Accounts Payable \$12 000 and received a discount of \$700
- Purchased inventory for cash \$1 500
- Paid wages \$10 000
- Owner drawings totalled \$ 6 700. This incl. cash and inventory valued at \$700.
- GST paid on expenses and purchases \$4 200
- Monthly loan repayment to MBA Bank \$1 000
- Purchase Motor Vehicle for cash \$30 000
- Paid for advertising \$4 000
- Paid rent \$3 000
- Interest paid on loan \$100
- Freight inwards paid \$500
- Purchase of Office Equipment for cash \$3 000
- Inventory gain \$300
- Credit sales for January \$45 000
- Credit purchases for January \$60 000



(a) **Complete** a Statement of Cash Flows for the month of January 2019.

Cash flows from Operating Activities	\$	\$
Inflows		
Outflows		
<i>Net Cash from Operating Activities</i>		
Cash flows from Investing Activities		
Inflows		
Outflows		
<i>Net Cash from Investing Activities</i>		
Cash flows from Financing Activities		
Inflows		
Outflows		
<i>Net Cash from Financing Activities</i>		
<i>Net Increase/Decrease in Cash</i>		
Opening Bank Balance 1st January 2019		
Closing Bank Balance 31 January 2019		

CASH FLOW COVER



This indicator measures the ability of the business to generate cash internally to meet short-term financial obligations. If internal cash flows are inadequate the business may need to rely on external debt and capital contributions to meet its financial commitments.

Ways to improve this ratio:

- Improve profitability. Increases in (A-L) represents profit (except for new capital).
- Increase cash sales.
- Increase Accounts Receivable collections.
- Reduce expenses.
- Delay payments to Accounts Payable.
- Inject new capital to retire debt/loans.

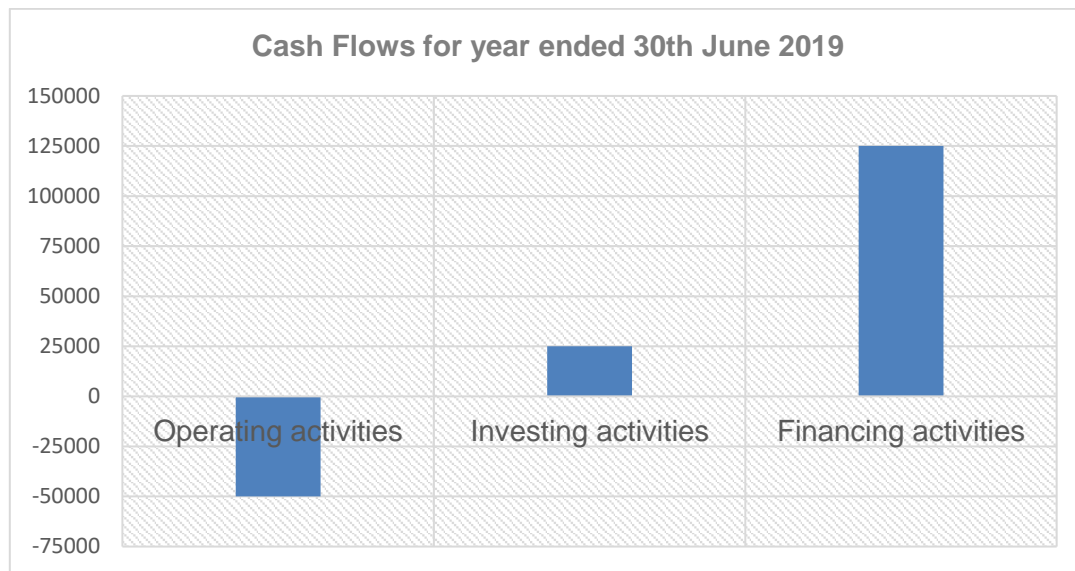
QUESTION 26 2017 VCAA EXAM

D&B Traders has been experiencing difficult trading conditions over the last two years. The business has reported successive losses and the bank ledger account at 1 July 2018 showed a credit balance of \$46 000.

From 1 July 2017, the business began offering credit to customers, resulting in increased sales and a small profit.

During the year ended 30 June 2019, the owner contributed a further \$60 000 cash and did not take any drawings for the year. The owner believes the cash position has improved and that the business is now operating satisfactorily.

The following graph shows Net Cash Flows for the year ended 30 June 2019.



a. Calculate the:

i. net increase/decrease in cash position for the year ended 30 June 2019

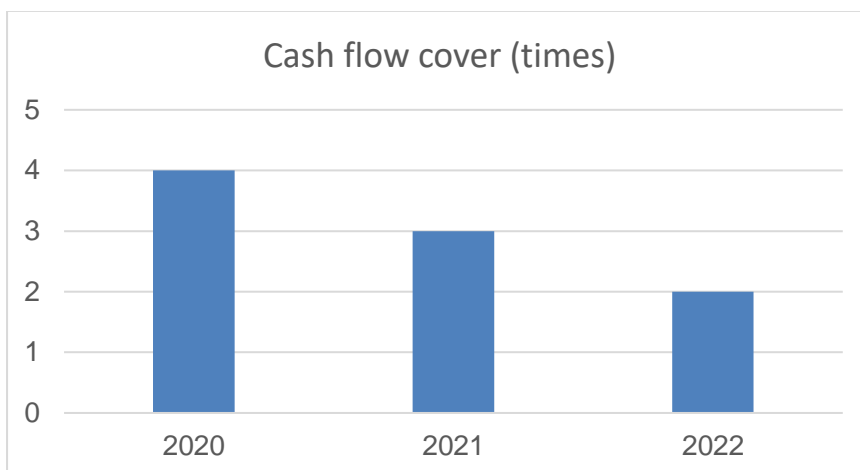
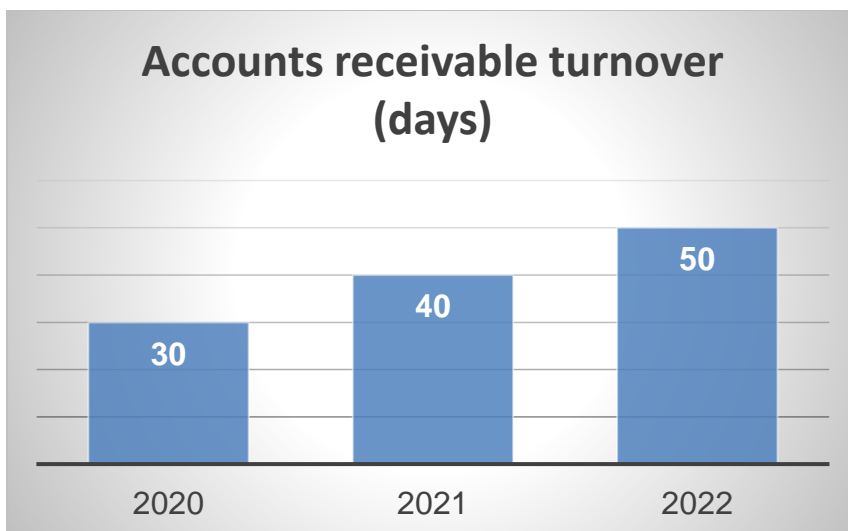
Calculation	
Net increase/(decrease) in cash 30/6/19	

QUESTION 27

Analyse the accompanying graphs and data. **Discuss** the liquidity position of this business over the 3 years and **discuss** strategies to improve the liquidity position.



	2020	2021	2022
Working Capital Ratio	2: 1	4:1	6:1



QUESTION 28

A summary of the Bank account for Cramer's Cakes for March 2019 appears below along with some additional information.

Summary of Receipts	\$	Summary of Payments	\$
Capital	10000	Advertising	18000
Cash Sales	92000	Cartage Inwards	740
GST Collected	9200	Electricity	2400
Loan Borrowings – ABC Bank	50000	Drawings	32800
Receipts from Accounts Receivable	32000	GST Paid	8630
		GST Settlement	1240
		Import Duties	260
		Interest	470
		Loan Repayments – ABC Bank	1000
		Office Supplies expense	1800
		Payments to Accounts Payable	45000
		Purchase of Inventory	15300
		Purchase of Office Equipment	8000
		Purchase of Van	37000
		Rent	2800
		Wages	24000
	193200		199440
Additional information:			
• Credit sales	45000		
• Sales returns	800		
• Credit purchases	44500		
• Inventory is marked up by 100%			
• Inventory gain	1200		
• Discount expense	2200		
• Discount revenue	1000		
• Net profit	17630		
• Bank balance 1 st March 2020	5500		

- (a) **Prepare** a Statement of Cash Flows showing the Net Cash Flows from Operating Activities for the month ended 31st March 2020

**Cramer's Cakes
Cash Flow Statement
for the month ended 31 March 2020**

	\$	\$
Cash Flow From Operating Activities		
Net Cash from Operations		

(c) **Explain** the importance of Cash Flows from Operating Activities

(d) Cramer believes that Net Cash from Operating Activities indicates whether the business has made a profit or a loss. **Explain**, giving **two** examples why Cramer is incorrect.

Example 1

Example 2

Explanation
