

CASH FLOW STATEMENT AND NOTES

15 AUGUST 2013

Lesson Description

In this lesson we:

- Focus on completing the note – reconciliation between profit before tax and cash generated from operations.
- Revise completing the Cash Flow Statement

Questions

Question 1

Cash Flow Statement and Ratio Analysis

The information given below was extracted from the financial statements of Manchester Ltd.

Required

Prepare the following:

- Complete the note for reconciliation between profit before taxation and cash generated from operations. (8)
- Prepare the Cash Flow Statement for the year end 28 February 2009. (28)
Workings must be shown in brackets to earn part-marks.

Information

1.	Extract from the Income Statement	R
	Depreciation	33 500
	Interest expense	164 450
	Net profit before tax	844 300
	Income tax (rate 30% of net profit)	?

2.	BALANCE SHEET	28 February 2009	28 February 2008
	ASSETS		
	Non-current assets	3 490 885	3 017 500
	Fixed/Tangible assets at carrying value	3 440 885	2 967 500
	Fixed deposit at PDV Bank	50 000	50 000
	Current assets	320 000	231 250
	Inventories	251 250	110 250
	Trade debtors	60 000	76 000
	Cash and cash equivalents	1 250	45 000
	SARS – Income tax	7 500	0
	TOTAL ASSETS	3 810 885	3 248 750
	EQUITY AND LIABILITIES		
	Capital and reserves	3 120 000	1 443 000

Ordinary share capital (par value R5)	2 085 000	1 050 500
Share premium	268 970	0
Retained income	766 030	392 500
Non-current liabilities	300 000	1 525 000
Loan: Enid Bank at 15% p.a.	300 000	1 525 000
Current liabilities	390 885	280 750
Trade creditors	209 945	220 475
Bank overdraft	47 500	0
Shareholders for dividends	133 440	52 525
SARS – Income tax	0	7 750
TOTAL EQUITY AND LIABILITIES	3 810 885	3 248 750

Additional Information

- A. Additional new shares were issued at a premium halfway through the year on 31 August 2008. These shares did not qualify for interim dividends.
- B. Fixed assets were sold for R100 000 cash at carrying value.
- C. Earnings and dividends per share were as follows:

	2009	2008
Earnings per share	189 cents per share	135 cents per share
Total dividends	72 cents per share	105 cents per share
Interim dividends	40 cents per share	80 cents per share
Final dividends	32 cents per share	25 cents per share

- D. You are also provided with the following financial indicators:

	2009	2008
% return on shareholders' equity	26%	21%
% return on capital employed (after tax)	24%	10%
Net asset value per share	?	687 cents

- E. The price of the shares on the Johannesburg Securities Exchange (JSE) has fluctuated between 680 cents and 780 cents over the past year.

Answer Sheet

Question 1

a.)

	Reconciliation between profit before taxation and cash generated from operations	
	Net profit before tax	844 300
	Adjustments:	
	Depreciation	33 500
	Interest on borrowed funds	164 450
	Operating profit before changes in working capital	1 042 250
	Changes in working capital	
	Cash generated from operations	

(8)

b.)

MANCHESTER LIMITED**CASH-FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2009**

	CASH FLOW FROM OPERATING ACTIVITIES	
	Cash generated from operations	
	Interest paid	
	Dividends paid	
	Taxation paid	
	CASH FLOW FROM INVESTING ACTIVITIES	
	Purchase of fixed assets	
	Proceeds from the sale of fixed assets	
	CASH FLOW FROM FINANCING ACTIVITIES	
	Proceeds of shares issued	
	Repayment of long-term loans	
	Net change in cash and cash equivalents	
	Cash and cash equivalents at the beginning of the year	
	Cash and cash equivalents at the end of the year	

(28)