

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Week 13

SUBJECT: ACCOUNTING

YEAR/LEVEL: 13

Strand 4: CASH FLOW STATEMENT

Sub-strand 4.1: Cash Flow Statement of Companies

**Content Learning Outcome:** Examine the preparation and interpretation of cash flow statement.

Greetings to all my students, weeks 10-12 we have covered preparation of final accounts of companies and this week (week 13) we will continue with our coverage of strand 4 **cash flow statement**. If there are any queries do contact me in our 13C Accounting Viber group.

**Lesson Notes**

You students already know that businesses deals with 2 natures of transactions, that is CASH and CREDIT.

- Our focus on this topic is cash transactions only.
- Upon coverage of this topic, you students should be able to:
  1. Define Cash flow statement.
  2. List One purpose of cash flow statement.
  3. List and briefly discuss the 3 classification of cash flows
  4. Prepare Cash flow statement of the business.

**SUMMARY NOTES**

- **Cash flow statement** shows the cash inflows and cash outflows of the business entity during an accounting period.
- One of the **purposes** of cash flow statement is to examine relationship between profitability and net cash flow.
- The cash flows in a business can be **classified** in 3 sections:
  1. **Operating Activities**- are cash flows arising from **normal operations**, such as revenue transactions, transactions occurring on frequent basis.
  2. **Investing Activities**- are cash flows that arise from investment activities, such as buying& selling of fixed assets and investments.
  3. **Financing Activities**- refers to cash flows that change the size and composition of the business entity. For instance any borrowings, lending's, capital contribution, drawings, repayments, share issue, dividends paid etc.

## Preparation of Cash Flow Statement

1. First classify the **cash** transactions given into operating, investing or financing inflow/outflow.
2. Remember it's a cash flow statement so do not include any **credit** transactions given or **non-cash items** such as depreciation.
3. Refer to your text book MOE Year 13 Accounting pg.126 for the full format of cash flow statement.
4. You students do not have to memorize the format if tested in exam than format **will be provided** in the answer book.
5. But **generally the format** is:

BUSINESS NAME STATEMENT OF CASH FLOW FOR THE YEAR ENDED XXXX			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Cash was provided from (Inflows/cash received)</i>			
Cash sales	Xx		
Operating revenues received	<u>xx</u>	xx	
<i>Cash was applied to (Outflows/cash paid)</i>			
Cash purchases	Xx		
Operating expenses paid	<u>xx</u>	<u>xx</u>	
Net Cash <b>Provided/ Used</b> by operating activities			xx
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<i>Cash was provided from (Inflows/cash received)</i>			
Cash sale of fixed asset/Property	Xx		
Sale of Shares/debentures of <b>other</b> entities	<u>xx</u>	xx	
<i>Cash was applied to (Outflows/cash paid)</i>			
Cash purchase of fixed assets/Properties	Xx		
Lending to other entities	<u>xx</u>	<u>xx</u>	
Net Cash <b>Provided/ Used</b> by investing activities			xx
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<i>Cash was provided from (Inflows/cash received)</i>			
Issue of shares/debentures	Xx		
Capital contribution/Borrowing loans	<u>xx</u>	xx	
<i>Cash was applied to (Outflows/cash paid)</i>			
Dividends paid/Drawings	Xx		
Repayment of loans/ share buy backs	<u>xx</u>	<u>xx</u>	
Net Cash <b>Provided/ Used</b> by investing activities			<u>xx</u>
<b>NET INCREASE/DECREASE IN CASH HELD</b>			XXX
<b>Add</b> CASH AT THE BEGINNING OF THE PERIOD			<u>XX</u>
CASH AT THE END OF THE PERIOD			<u>XXX</u>

### Note:

1. If cash inflows > cash outflows → Answer is (+) so write →Net Cash **provided**
2. If cash inflows < cash outflows → Answer is (-) so write →Net Cash **used**
3. Total of **net** operating, investing and financing cash flows will either be (-) or (+):
  - (-) than write Net **decrease** in cash held & write amount in brackets (\$xx)
  - (+) than write Net **increase** in cash held
4. Always **add (+)** cash at the beginning to find the cash at the end of the period.

❖ So this is just **summarized notes** on strand 4 so for further reference refer to your text book (MOE ACCOUNTING TEXT PG. 123-130).

❖ Given below is Class activity lifted from your text book and **first classify** transactions either as operating (O)/investing (I)/ financing(F), inflow(+) or outflow(-).

❖ Use format given as a **guide** and prepare the Cash flow Statement yourself.

**CLASS ACTIVITY (Ref: MOE Text Year 13 Accounting pg.131 Act. 4.1.3 Q.2)**

The following transactions relate to the cash flows of Sunrise Retailers for the year ending 31st December 2017.

	Particulars	\$
1	Receipts from customers	12 000
2	Cash sales	147
3	Payments to suppliers	23 000
4	Payment for Rent	14 000
5	Cash purchase of Motor vehicle - Hybrid	22 000
6	Cash Drawings by the owner	10 000
7	Payment of Interest	5 500
8	Interest received	9 000
9	Income tax paid	4 500
1	Additional capital - cash	32 000
1	Took loan	28 000
1	Cash at bank 1/1/17	15 000

**Required:**

Prepare a Statement of Cash Flow for Sunrise Retailers for the year ending 31st December 2017.

**(Solutions of this activity will be provided later for verification, Best wishes for week 13 studies, take care and Stay Safe)**

