

**Task A10.44: Exercise on Cash Flows**

Numbers in this task are to be derived from your Student-ID. If i.e. your student-ID is 125518, the following amounts will apply: X = 5; Y = 1; Z = 8. Accordingly, the purchase amount given in the task as 5X,000 units would be for you: 55,000 units. The other figures apply respectively. You must use your REAL student-ID as stated on the enrol list!

ENTER YOUR STUDENT-ID:				X	Y	Z
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TRITONIA Ltd. is a South African car wash company. The company was established in 20X1 by a share issue of 500,000 shares at 1.00 ZAR/share. TRITONIA Ltd. is registered for VAT reduction. On the 31.12.20X4, TRITONIA Ltd. shows the balance sheet as below:

Tritonia Ltd.			
STATEMENT of FINANCIAL POSITION			
as at 31.12.20X4			
A			C, L
<i>Non-current assets</i>	[ZAR]	<i>Equity</i>	[ZAR]
P, P, E	650,000.00	Share capital	500,000.00
Intangibles		Reserves	200,000.00
Financial assets		Retained earnings	
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory	200,000.00	Long-term liab. IBL	
Acc. receivables A/R		Short-term liab. A/P	270,000.00
Prepaid expenses	50,000.00	Provisions	
Cash/Bank	100,000.00	Income tax liab.	30,000.00
<b>Total assets</b>	<b>1,000,000.00</b>	<b>Total equity and liab.</b>	<b>1,000,000.00</b>

**Exhibit 1: Balance sheet**

The short term liabilities are for dividends to an extent of 70,000.00 ZAR, for suppliers to an extent of 80,000.00 ZAR and VAT liabilities to an extent of 120,000.00 ZAR. All amounts are due in 20X5. Prepaid expenses are for the monthly rent of the car wash facilities: 50,000.00 ZAR/m. The inventories are soap to an extent of 200,000.00 ZAR that is used in the car wash process.

In 20X5 TRITONIA Ltd. pays its suppliers, the revenue service (VAT and income tax liabilities) and its shareholders the dividends.

Depreciation at TRITONIA Ltd. on car wash facilities is amounting to 150,000.00 ZAR/a.

The monthly rent of 50,000.00 ZAR/m increases to 6X,000.00 ZAR/m from 1.07.20X5 onwards. TRITONIA Ltd. pays rent one month in advance. Rent is not subjected to VAT.

TRITONIA Ltd. buys soap for cost of purchases (net amount) of 2,Y00,000.00 ZAR and uses 90 % of its soap (purchase plus opening value of inventories) for car washing. TRITONIA Ltd. pays the supplier for the purchase to an extent of 8Z %, the remainder is paid in the next following Accounting period 20X6.

TRITONIA Ltd. washes 4Z,000 cars during the Accounting period 20X5 and gets paid 192.00 ZAR/car wash (gross amount).

Operational expenses at TRITONIA Ltd. are 3,00X,000.00 ZAR. Operational expenses are not VATable.

TRITONIA Ltd. declares a dividend of 50 % of its distributable amount, to be paid in 20X6 to its shareholders.

**Required: Prepare an income statement following the nature of expense method. Calculate the operating cash flow by reconciliation with the earnings after taxes. The investing cash flow is zero. Determine the financing cash flow by direct method. Compare your cash flow to the Cash/Bank account.**

**Solution (X=5; Y=1; Z=8)**

- (1) Transfer of prepaid expenses
- (2) Dividend payment
- (3) Payment to suppliers
- (4) Payment of VAT/p
- (5) Payment of income tax liabilities
- (6) Depreciation
- (7) Payment for rent
- (8) Recording prepaid expenses for 20X6
- (9) Purchase of soap, VATable and payment split
- (10) Revenue recognition

## (11) Payment of operational expenses

Observe the accounts in Exhibit 2:

<b>D Property, plant equipment PPE C</b> OV 650,000.00 c/d 650,000.00 b/d 650,000.00		<b>D Accumulated depreciation ACC C</b> c/d 150,000.00 (6) 150,000.00 b/d 150,000.00		<b>D Inventories INV C</b> OV 200,000.00 P&L 2,790,000.00 (9) 2,900,000.00 c/d 310,000.00 3,100,000.00 3,100,000.00 b/d 310,000.00	
<b>D Prepaid expenses PRE C</b> OV 50,000.00 (1) 50,000.00 (8) 69,000.00 c/d 69,000.00 119,000.00 119,000.00 b/d 69,000.00		<b>D Cash/Bank C/B C</b> OV 100,000.00 (2) 70,000.00 (10) 9,408,000.00 (3) 80,000.00 (4) 120,000.00 (5) 30,000.00 (7) 733,000.00 (9) 3,097,200.00 (11) 3,009,000.00 c/d 2,368,800.00 9,508,000.00 9,508,000.00 b/d 2,368,800.00		<b>D Share capital ISS C</b> c/d 500,000.00 OV 500,000.00 b/d 500,000.00	
<b>D Reserves RES C</b> c/d 200,000.00 OV 200,000.00 b/d 200,000.00		<b>D Accounts payables A/P C</b> (3) 80,000.00 OV 80,000.00 c/d 382,800.00 (9) 382,800.00 462,800.00 462,800.00 b/d 382,800.00		<b>D Value added tax VAT C</b> (4) 120,000.00 OV 120,000.00 (9) 580,000.00 (10) 1,568,000.00 c/d 988,000.00 1,688,000.00 1,688,000.00 b/d 988,000.00	
<b>D Shareholders for dividend S4D C</b> (2) 70,000.00 OV 70,000.00 R/E 411,950.00		<b>D Income tax liabilities C</b> (5) 30,000.00 OV 30,000.00 c/d 353,100.00 P&L 353,100.00 383,100.00 383,100.00 b/d 353,100.00		<b>D Rent-20X5 RNT C</b> (1) 50,000.00 (8) 69,000.00 (7) 733,000.00 P&L 714,000.00 783,000.00 783,000.00	
<b>D Depreciation-20X5 DPR C</b> (6) 150,000.00 P&L 150,000.00		<b>D Revenue-20X5 REV C</b> P&L 7,840,000.00 (10) 7,840,000.00		<b>D Operational expenses-20X5 OEX C</b> (11) 3,009,000.00 P&L 3,009,000.00	
<b>D Profit and Loss-20X5 C</b> RNT 714,000.00 REV 7,840,000.00 INV 2,790,000.00 DPR 150,000.00 OEX 3,009,000.00 EBT 1,177,000.00 7,840,000.00 7,840,000.00 ITL 353,100.00 b/d 1,177,000.00 R/E 823,900.00		<b>D Retained earnings C</b> S4D 411,950.00 P&L 823,900.00 c/d 411,950.00 823,900.00 823,900.00 b/d 411,950.00			

### Exhibit 2: Accounts (not required)

See the income statement in Exhibit 3:

Tritonia Ltd.  
**STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X5**

	[ZAR]
Revenue	7,840,000.00
	<u>7,840,000.00</u>
Materials	(2,790,000.00)
Labour	
Depreciation	(150,000.00)
Other expenses	(3,723,000.00)
	<u>1,177,000.00</u>
<b>Earnings before int. &amp; taxes (EBIT)</b>	<b>1,177,000.00</b>
Interest	
	<u>1,177,000.00</u>
<b>Earnings before taxes (EBT)</b>	<b>1,177,000.00</b>
Income tax expenses	(353,100.00)
Deferred taxes	
	<u>823,900.00</u>
<b>Earnings after taxes (EAT)</b>	<b>823,900.00</b>

**Exhibit 3:** Income statement

See the balance sheet in Exhibit 4:

Tritonia Ltd.  
**STATEMENT of FINANCIAL POSITION**  
**as at 31.12.20X5**

as at 31.12.20X5				C, L	
Non-current assets		[ZAR]	Equity		[ZAR]
P, P, E	500,000.00		Share capital	500,000.00	
Intangibles			Reserves	200,000.00	
Financial assets			Retained earnings	411,950.00	
Current assets			Liabilities (liab.)		
Inventory	310,000.00		Long-term liab. IBL		
Acc. receivables A/R			Short-term liab. A/P	1,782,750.00	
Prepaid expenses	69,000.00		Provisions		
Cash/Bank	2,368,800.00		Income tax liab.	353,100.00	
Total assets	3,247,800.00		Total equity and liab.	3,247,800.00	

**Exhibit 4:** Balance sheet

Observe the statement of cash flows below in Exhibit 5:

<b>Tritonia Ltd.</b> <b>STATEMENT of CASH FLOWS</b> <b>for the period ended 31.12.20X5</b>		
<i>Cash flow from operating activities</i>	[ZAR]	[ZAR]
EAT	823,900.00	
add Depreciation	150,000.00	
...		
	<u>973,900.00</u>	
<i>changes in working capital</i>		
changes in A/R	0.00	
changes in prepaid expenses	(19,000.00)	
changes in inventory	(110,000.00)	
changes in A/P	302,800.00	
changes in income tax liabilities	323,100.00	
changes in VAT/r only materials	(580,000.00)	
changes in VAT/p	<u>1,448,000.00</u>	
		<u>2,338,800.00</u>
<i>Cash flow from investing activities</i>		
Investments	<u>0.00</u>	
		<u>0.00</u>
<i>Cash flow from financing activities</i>		
Dividend paid	<u>(70,000.00)</u>	
		<u>(70,000.00)</u>
<b>Total cash flow</b>		<u><u>2,268,800.00</u></u>

**Exhibit 5:** Statement of cash flows