

Task A10.44: Exercise on Cash Flows

PORTERFIELD Ltd. is an Australian café selling coffees and cupcakes. The company is established on 2.01.20X1 with a share issue of 50,000 ordinary shares at 1.00 AUD/s. For financing the company takes a bank loan on 2.01.20X1 of 40,000.00 AUD. The loan's rate of interest is 4 %/a. The pay-off amount is amounting to 4,000.00 AUD/a. PORTERFIELD Ltd. discloses the balance sheet as below on 31.12.20X5.

Porterfield Ltd.			
STATEMENT of FINANCIAL POSITION			
as at 31.12.20X5			
A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	15,000.00	Share capital	50,000.00
Intangibles		Reserves	80,000.00
Financial assets		Retained earnings	
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory	4,000.00	Long-term liab. IBL	16,000.00
Acc. receivables A/R	10,000.00	Short-term liab. A/P	4,000.00
Prepaid expenses	3,000.00	Provisions	
Cash/Bank	118,000.00	Income tax liab.	
Total assets	150,000.00	Total equity and liab.	150,000.00

The inventories include 800 packages of muffin powder at 5.00 AUD/u. One package of muffin powder can make 10 muffins. The prepaid expenses are for the booth and is a 3-months rent value. The receivables are from customers. In 20X6, PORTERFIELD Ltd. collects 76 % of the receivables and writes-off the remainder as bad debts.

In 20X6, PORTERFIELD Ltd. sells 40,000 muffins at a net selling price of 3.00 AUD/u. PORTERFIELD Ltd. also sells 50,000 coffees at 2.50 AUD/u. All customers pay on cash. No coffee no muffins are added to stock.

For muffin baking, PORTERFIELD Ltd. buys 3,500 packages of powder at 5.00 AUD/u. Consider a waste rate of 2 % of the muffin powder material expenses for the baking process as the material is perishable. For the coffee making,

PORTERFIELD Ltd. buys 55,000 coffee capsules (one per coffee) at 0.50 AUD/u. PORTERFIELD Ltd.'s water bill is 100.00 AUD/m. The electricity consumption per month is 50.00 AUD/m. Water and electricity are non-VATable expenses.

On 30.06.20X6, PORTERFIELD Ltd. sells its old kitchen incl. all appliances for 14,000.00 AUD (net value, you must consider VAT) and buys a new one for 35,000.00 AUD cost of acquisition. The kitchen is paid half in 20X6 and the other half in 20X7. The old kitchen's depreciation in 20X5 is 2,500.00 AUD (until 30.06.20X6.). The new kitchen is depreciated following straight-line method over 7 years. No residual value applies.

The rent is paid 3 months in advance. Its monthly amount is 1,000.00 AUD/m. From 1.10.20X6, rent increases by 5 %. Rent is non-VATable.

Labour and Administration are 50,000.00 AUD/a.

Required: Prepare a statement of cash flow following the direct method, the reconciliation method and the derivative method.

Solution:

Observe the accounts:

D Inventory capsules INC C OV 0.00 P&L 25,000.00 50000 55000 (6) 27,500.00 c/d 2,500.00 27,500.00 27,500.00 b/d 2,500.00				D Inventory muffin powder INM C 800 OV 4,000.00 MAT 20,400.00 4080 3500 (5) 17,500.00 c/d 1,100.00 220 21,500.00 21,500.00 220 b/d 1,100.00				D Property, plant, equipment PPE C OV 15,000.00 REA 15,000.00 (10) 35,000.00 c/d 35,000.00 50,000.00 50,000.00 b/d 35,000.00			
D Accounts receivables A/R C OV 10,000.00 (1) 7,600.00 (2) 2,400.00 10,000.00 10,000.00				D Prepaid expenses PRE C OV 3,000.00 (13) 3,000.00 PRE 3,150.00 c/d 3,150.00 6,150.00 6,150.00 b/d 3,150.00				D Accumulated depreciation ACC C REA 2,500.00 OV 0.00 (9) 2,500.00 c/d 2,500.00 (12) 2,500.00 5,000.00 5,000.00 b/d 2,500.00			
D Cash/Bank C/B C OV 128,000.00 (5) 21,000.00 (1) 7,600.00 (6) 33,000.00 (3) 144,000.00 (7) 1,200.00 (4) 150,000.00 (8) 600.00 REA 16,800.00 (10) 21,000.00 (11) 4,000.00 (14) 12,300.00 (15) 50,000.00 (17) 800.00 c/d 302,500.00 446,400.00 446,400.00 b/d 302,500.00				D Issued capital ISS C OV 50,000.00				D Reserves RES C OV 80,000.00			
D Interest bearing liabilities IBL C (16) 4,000.00 OV 16,000.00 c/d 12,000.00 16,000.00 16,000.00 b/d 12,000.00				D Short-term liabilities A/P C (11) 4,000.00 OV 4,000.00 (10) 21,000.00 c/d 25,000.00 (16) 4,000.00 29,000.00 29,000.00 b/d 25,000.00				D Bad debts-20X6 B-D C (2) 2,000.00 P&L 2,000.00			
D Value added tax VAT C B-d (2) 400.00 (3) 24,000.00 REV Pur (5) 3,500.00 (4) 25,000.00 REV Pur (6) 5,500.00 REA 2,800.00 INV (10) 7,000.00 c/d 35,400.00 51,800.00 51,800.00 b/d 35,400.00				D Revenue-20X6 REV C P&L (3) 120,000.00 245,000.00 (4) 125,000.00 245,000.00 245,000.00				D Profit and Loss-20X6 P&L C MAT 20,400.00 REV 245,000.00 B-D 2,000.00 PoD 1,500.00 RNT 12,150.00 WAT 1,200.00 ELC 600.00 INC 25,000.00 LAB 50,000.00 DPR 5,000.00 INT 800.00 EBT 129,350.00 246,500.00 246,500.00 ITL 38,805.00 b/d 129,350.00 R/E 90,545.00			
D Water-20X6 WAT C (7) 1,200.00 P&L 1,200.00				D Electricity-20X6 ELC C (8) 600.00 P&L 600.00				D Depreciation-20X6 DPR C (9) 2,500.00 P&L 5,000.00 (12) 2,500.00 5,000.00 5,000.00			
D Realisation-20X6 C PPE 15,000.00 ACC 2,500.00 VAT 2,800.00 C/B 16,800.00 POD 1,500.00 19,300.00 19,300.00				D Rent-20X6 C (13) 3,000.00 PRE 3,150.00 (14) 12,300.00 P&L 12,150.00 15,300.00 15,300.00				D Labour-20X6 LAB C (15) 50,000.00 P&L 50,000.00			
D Interest-20X6 INT C (17) 800.00 P&L 800.00				D Income tax liabilities ITL C c/d 38,805.00 P&L 38,805.00 b/d 38,805.00				D Retained earnings R/E C c/d 90,545.00 P&L 90,545.00 b/d 90,545.00			

Exhibit 2: Accounts

See below the statements of cash flows

Porterfield Ltd. STATEMENT of CASH FLOWS for the period ended 31.12.20X6		
<i>Cash flow from operating activities</i>	[AUD]	[AUD]
EAT	90,545.00	
add Interest paid	800.00	
add Coupon paid		
add Depreciation	5,000.00	
less profit on disposal	(1,500.00)	
...		
	<u>94,845.00</u>	
<i>changes in working capital</i>		
changes in A/R	10,000.00	
changes in prepaid expenses	(150.00)	
changes in inventory	400.00	
changes in A/P	0.00	
changes in income tax liabilities	38,805.00	
changes in VAT/r only materials	(9,400.00)	
changes in VAT/p	<u>49,000.00</u>	
		<u>183,500.00</u>
<i>Cash flow from investing activities</i>		
Investments	(21,000.00)	
...	<u>16,800.00</u>	
		<u>(4,200.00)</u>
<i>Cash flow from financing activities</i>		
Share issue		
Bond issued		
Coupon paid		
Pay-off plus interest	(4,800.00)	
...		
		<u>(4,800.00)</u>
Total cash flow		<u><u>174,500.00</u></u>

Exhibit 3: Statement of cash flows (reconciliation method)

Porterfield Ltd. STATEMENT of CASH FLOWS for the period ended 31.12.20X6		
<i>Cash flow from operating activities</i>	[AUD]	[AUD]
Proceeds	294,000.00	
Debts collection	7,600.00	
Labour	(50,000.00)	
Purchase	(54,000.00)	
Water	(1,200.00)	
Elec	(600.00)	
Rent	(12,300.00)	
...		
		183,500.00
<i>Cash flow from investing activities</i>		
Investments	(21,000.00)	
Disposal	16,800.00	
...		
		(4,200.00)
<i>Cash flow from financing activities</i>		
Share issue		
Bond issued		
Coupon paid		
Pay-off plus interest	(800.00)	
Pay-off	(4,000.00)	
		(4,800.00)
Total cash flow		174,500.00

Exhibit 4: Statement of cash flows (direct method)

Porterfield Ltd.
STATEMENT of FINANCIAL POSITION

A		as at 31.12.20X6		C, L		
Non-current assets		[AUD]		Equity		[AUD]
P, P, E		32,500.00		Share capital		50,000.00
Intangibles				Reserves		80,000.00
Financial assets				Retained earnings		90,545.00
Current assets				Liabilities (liab.)		
Inventory		3,600.00		Long-term liab. IBL		12,000.00
Acc. receivables A/R		0.00		Short-term liab. A/P		60,400.00
Prepaid expenses		3,150.00		Provisions		
Cash/Bank		292,500.00		Income tax liab.		38,805.00
Total assets		331,750.00		Total equity and liab.		331,750.00

Exhibit 5: Balance sheet 31.12.20X6

DELTA BALANCE SHEET			
changes PPE	16500	Changes ISS	0.00
changes INV	-400	Changes RES	0.00
Changes PRE	150	Changes R/E	89740
Changes CF	174,500.00	Changes IBL	-4000
Changes A/R	-10000	Changes A/P	56400
		Changes ITL	38460
f Pay-off	4,000.00	Debt collection	10000
		changes inv	400
MAT	20400	Revenue	245000
B-D	2000	Profit on Disposal	1500
RNT	12150		
o WAT	1,200.00	DPR	2500
		DPR	2500
o ELC	600.00	Disposal	14000
INC	25000	Disposal VAT	2800
o LAB	50,000.00		
DPR	5000		
o INT	800.00		
ITL	38460		
Investment	35000		
Investment VAT	7000		
Purchase	=20400+25000-400		
Purchase VAT	9000	Revenue VAT	49000
o Rent	12,300.00		
		A/P rest	20,600.00
		real debts collection	8,000.00
o Purchase gross amt	54,000.00	Proceeds	294,000.00
i Investment gross amt	42,000.00	Disposal gross	16,800.00
	339,400.00		339,400.00

Exhibit 6: Delta-balance sheet

Porterfield Ltd.
STATEMENT of CASH FLOWS
for the period ended 31.12.20X6

	[AUD]	[AUD]
<i>Cash flow from operating activities</i>		
Proceeds	294,000.00	
Debts collection	8,000.00	
Labour	(50,000.00)	
Purchase	(54,000.00)	
Water	(1,200.00)	
Elec	(600.00)	
Rent	(12,300.00)	
A/P	20,600.00	
...		
		204,500.00
<i>Cash flow from investing activities</i>		
Investments	(42,000.00)	
Disposal	16,800.00	
...		
		(25,200.00)
<i>Cash flow from financing activities</i>		
Share issue		
Bond issued		
Coupon paid		
Pay-off plus interest	(800.00)	
Pay-off	(4,000.00)	
		(4,800.00)
Total cash flow		174,500.00

Exhibit 7: Statement of cash flows (derivative method)