

Example : Preparation of ash flow statement

The following information was extracted from the financials of Magic Box Ltd for the year ended
31December20x8

MAGIC WORLD LTD INCOME STATEMENT FOR THE YEAR ENDED 31DECEMBER 20X8

	ZWL'00
	0
Sales	30650
Cost of sales	<u>-26000</u>
Gross profit	4650
Other income	
Investment income	500
Operating expenses	-1400
Administration & selling	410
Depreciation	450
Insurance	500
Loss om disposal of equipment	40
Finance cost	
Interest on loan	-250
Profit before tax	3 500
Taxation	<u>-300</u>
Profit for the period	<u>3200</u>

MAGIC WORLD LTD
STATEMENT OF FINANCIAL
POSITION
AT 31 DECEMBER 20X8

	20X8	20X7
	ZWL'000	ZWL'000
ASSETS		
Non-current assets		
	2430	850
Equipment at cost	3880	1910
Accumulated depreciation	-1450	-1060
Investments	3440	2500
Current assets	2905	3315
Inventory	900	1950
Accounts receivable	1700	1200
Investment income receivable	100	nil
Insurance paid in advance	15	5
Bank	190	160
	<u>8775</u>	<u>6665</u>
EQUITY AND LIABILITIES		
Capital and reserves	5780	2630
Share capital	2400	1250
Retained earnings	3380	1380
Non-current liabilities		
Loan from bank	1800	1040
Current liabilities		
	1195	2995
Accounts payable	130	1800
Administration and selling expenses	35	15
Accrued	230	100
Taxation payable	400	800
Dividends payable	400	200
	<u>8775</u>	<u>6665</u>

Additional information

- i. Equipment which originally cost ZWL 200 000 was sold during the period
- ii. No loans were repaid during the period

iii. No investments were sold during the period

Required

- i. Prepare statement of cash flow for Magic Box Ltd using the direct method
- ii. Prepare statement of cash flow for Magic Box Ltd using the direct method

SOLUTION (i)– DIRECT METHOD

MAGIC WORLD LTD

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 20X8

	ZWL' 100s
Cash flows from operating activities	
Cash receipts from customers	30150
Cash paid to suppliers & operating	(27600)
Cash generated from operations	<u>2550</u>
	(1420)
Investment income	400
Interest paid	(120)
Taxation paid	(700)
Dividends paid	(1000)
Net cashflow from operating activities	1130
Cash flows from investing activities	
Purchase of equipment	(2170)
Proceeds from disposal of equipment	100
Acquisition of investments	(940)
Net cash outflow from investing activities	(3010)
Cash flows from financing activities	
Proceeds from issue of shares	1150
Proceeds from long term borrowings	760
Net cash inflow from financing activities	1910
Net increase in cash	30
Cash at beginning of period	160
Cash at end of period	190

Workings

Reconciliation of profit before tax to cash from operations

Profit before tax	3500
Adjust for non-cash & non-operating items	240
Depreciation	450
Loss on disposal of non-current asset	40
Investment income	(500)
Interest expense	250
Operating cash before working capital changes	3740

Working capital changes

	(1190)
Increase in accounts receivable	(500)
Decrease in accounts payable	(1750)
Decrease in inventory	1050
Increase in administration & selling payable	20
Increase in insurance paid in advance	(10)
Cash generated from operations	2550

Reconciliation of taxation & dividends paid

	Taxatio n	Dividend s
Liability at beginning of year	800	200
Amount accrued	300	1200
Liability at end of year	(400)	(400)
Amount paid in cash	700	1000

Solution (ii) – Indirect Method

Profit before tax	3500
Adjust for non-cash & non-operating items	240
Depreciation	450
Loss on disposal of non-current asset	40
Investment income	(500)
Interest expense	250
Operating cash before working capital changes	3740
Working capital changes	(1190)
Increase in accounts receivable	(500)
Decrease in accounts payable	(1750)
Decrease in inventory	1050
Increase in administration & selling payable	20
Increase in insurance paid in advance	(10)
Cash generated from operations	2550
	(1420)
Investment income	400
Interest paid	(120)
Taxation paid	(700)
Dividends paid	(1000)
Net cashflow from operating activities	1130
Cash flows from investing activities	
Purchase of equipment	(2170)
Proceeds from disposal of equipment	100
Acquisition of investments	(940)
Net cash outflow from investing activities	(3010)
Cash flows from financing activities	
Proceeds from issue of shares	1150
Proceeds from long term borrowings	760
Net cash inflow from financing activities	1910
Net increase in cash	30
Cash at beginning of period	160
Cash at end of period	190

**Reconciliation of taxation & dividends
paid**

Liability at beginning of year
Amount accrued
Liability at end of year
Amount paid in cash

	Taxation	Dividend s
	800	200
	300	1200
	(400)	(400)
	<hr/>	<hr/>
	700	1000
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