

# Cash Flow Statements

▶ Alastair Abbott | 27 April 2023



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# Say 'hi' in the chat!



This is an interactive workshop!

- 01 Ask questions via Q&A
- 02 Comments and banter in the chat
- 03 Participate!

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## Alastair Abbott

CA, B.Comm., GradDipCA, M. Forensic Accounting, MAICD, Registered Company Auditor, Registered Self-Managed Super Fund Auditor

- ▶ Joined **Australian Audit in 2008**, rising to position of Director in 2014
- ▶ Completed his undergraduate studies at the University of Western Australia followed by the **Chartered Accounting** program.
- ▶ Completed a **Masters of Forensic Accounting** through the University of Wollongong.
- ▶ Has broad experience across all types of audits, from the smaller trust accounts, variable outgoings and strata companies through to financial statement audits for large companies, charities and financial service licensees.
- ▶ Volunteers on the board of multiple charities

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A presentation slide with a portrait of Alastair Abbott on the left. The background is white with a yellow banner containing the word 'WELCOME' in large black letters. Below the banner, his name and title are listed. The slide features decorative elements like a grid of yellow dots and wavy lines on the right side, and a 'TAX NUSERS' logo in the bottom right corner.

**WELCOME**

Alastair Abbott  
Director, Australian Audit

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# Agenda



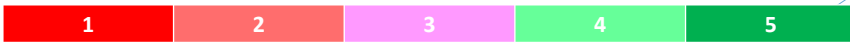
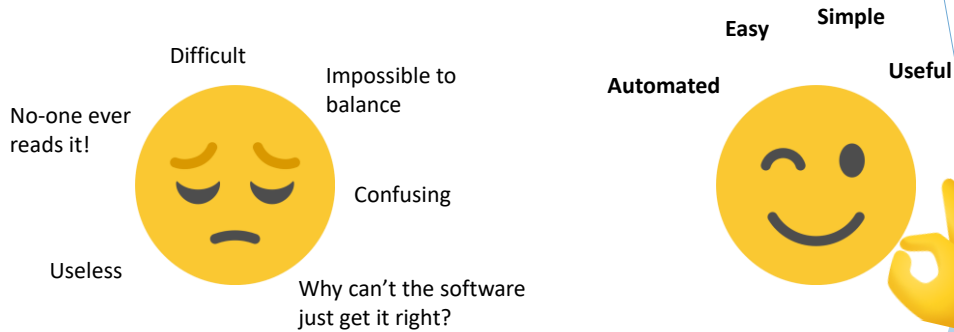
- ▶ What, Why and Who of cash flows
- ▶ Worked examples of how to prepare



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## What do you associate with: CASH FLOW STATEMENT?



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# What, Why, Who

Of Cash flow statements

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## What is a cash flow statement?

- ▶ Historical changes in cash
- ▶ Classified between:
  - ▶ Operating
  - ▶ Investing
  - ▶ Financing
- ▶ Eliminates effect of accounting adjustments
- ▶ Per AASB 107

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|  |          |       |
|--|----------|-------|
| <b>Cash flows from operating activities</b>                            |          |       |
| Cash receipts from customers   | 30,150   |       |
| Cash paid to suppliers and employees                                   | (27,800) |       |
| Cash generated from operations   | 2,550    |       |
| Interest paid  | (270)    |       |
| Income taxes paid  | (900)    |       |
| <i>Net cash from operating activities</i>                              |          | 1,380 |
| <b>Cash flows from investing activities</b>                            |          |       |
| Acquisition of subsidiary X, net of cash acquired (Note A)             | (550)    |       |
| Purchase of property, plant and equipment (Note B)                     | (350)    |       |
| Proceeds from sale of equipment  | 20       |       |
| Interest received  | 200      |       |
| Dividends received   | 200      |       |
| <i>Net cash used in investing activities</i>                           |          | (480) |
| <b>Cash flows from financing activities</b>                            |          |       |
| Proceeds from issue of share capital                                   | 250      |       |
| Proceeds from long-term borrowings                                     | 250      |       |
| Payment of lease liabilities   | (90)     |       |
| Dividends paid <sup>(a)</sup>  | (1,200)  |       |
| <i>Net cash used in financing activities</i>                           |          | (790) |
| <b>Net increase in cash and cash equivalents</b>                       |          | 110   |
| <b>Cash and cash equivalents at beginning of period (Note C)</b>       |          | 120   |
| <b>Cash and cash equivalents at end of period (Note C)</b>             |          | 230   |
| <small>(a) This could also be shown as an operating cash flow.</small> |          |       |

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## Who has to prepare cash flow statements?

- ▶ General Purpose Financial Statements - Tier 1 and Tier 2 (SDR)
- ▶ Compliant Special Purpose Financial Statements
  - ▶ Complying with AASB 101
  - ▶ Complying with AASB 107
  - ▶ Complying with AASB 1054
  - ▶ Complying with 'Australian Accounting Standards'
- ▶ Other entities by choice
  
- ▶ Super Special Purpose Financial Statements – not claiming compliance with Australian Accounting Standards – cash flow is optional

## Why prepare cash flow statements?

- ▶ Provide **useful information** for users of financial reports
- ▶ **Economic decisions of users** require evaluation of ability to generate cash
- ▶ **All entities need cash** for essentially **the same reasons** regardless of how different their principal revenue-producing activities might be.
- ▶ They need cash to **conduct their operations**, to pay their **obligations**, and to provide **returns to their investors**.

## Classifications

- ▶ **Operating** - principal revenue-producing activities
- ▶ **Investing** - long-term assets and other investments
- ▶ **Financing** - contributed equity and borrowings
  
- ▶ Grouped in manner most appropriate to that business
  - ▶ a 'substance over form' approach

## Operating, Investing or Financing?

For each transaction – where does it belong in the statement of cash flows?

1. Daily till takings in a café
2. Bank interest received
3. Repayment of Div 7A loan by shareholder
4. Issue an invoice to a customer
5. Rent paid to landlord for occupancy of a factory
6. Proceeds on sale of motor vehicle
7. Staff wages paid
8. Dividend paid to shareholder

## Operating

- ▶ *Operating activities* are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- ▶ Examples:
  - ▶ cash receipts from the sale of goods and the rendering of services
  - ▶ cash receipts from royalties, fees, commissions and other revenue
  - ▶ cash payments to suppliers for goods and services
  - ▶ cash payments to and on behalf of employees
  - ▶ cash payments or refunds of income taxes
  - ▶ cash receipts and payments from contracts held for dealing or trading purposes.

## Investing

- ▶ *Investing activities* are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- ▶ Resources intended to generate future income and cash flows
- ▶ Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.
- ▶ Examples:
  - ▶ Payment / proceeds from property, plant and equipment, intangibles and other long-term assets.
  - ▶ Payment / proceeds from equity or debt instruments
  - ▶ Payment / proceeds from Advances and loans made to other parties

## Financing

- ▶ *Financing activities* are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.
- ▶ Examples:
  - ▶ Payment / proceeds from issuing / redeeming shares or equity instruments
  - ▶ Payment / proceeds from borrowings
  - ▶ Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.

## What are Cash (*and cash equivalents*)?

- ▶ Cash comprises **cash on hand and demand deposits**.
- ▶ *Cash equivalents* are short-term (~<3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
  - ▶ held for the purpose of meeting short-term cash commitments rather than for investment or other purposes
- ▶ *Cash flows* are **inflows and outflows of cash and cash equivalents**.
- ▶ Not bank borrowings, not credit card, maybe bank overdraft



## Interest and dividends

|  | Operating | Investing | Financing | Reasoning for choice |
|--|-----------|-----------|-----------|----------------------|
|  |           |           |           |                      |
|  |           |           |           |                      |
|  |           |           |           |                      |
|  |           |           |           |                      |

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## Operating, Investing or Financing? - Answers

For each transaction – where does it belong in the statement of cash flows?

- Daily till takings in a café **Operating – receipts from customers**
- Bank interest received **Operating or Investing**
- Repayment of Div 7A loan by shareholder **Investing – receipts for repayment of loans advanced**
- Issue an invoice to a customer **N/A – no cash flow**
- Rent paid to landlord for occupancy of a factory **Financing – payment of lease liabilities**
- Proceeds on sale of motor vehicle **Investing – proceeds from sale of PPE**
- Staff wages paid **Operating – payments to employees**
- Dividend paid to shareholder **Financing – dividends paid**

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## Taxes

- ▶ Cash flows arising from income taxes must be listed separately
- ▶ Income taxes shown as operating
  - ▶ unless clearly linked to an investing or financing transaction (less common)
- ▶ GST presented on a gross basis –
  - ▶ receipts from customers and payments to suppliers grossed up to take account of GST Paid received

## Other matters

- ▶ Non-cash transactions
  - ▶ Not part of the statement of cash flows
- ▶ Components of cash and cash equivalents
  - ▶ Reconciliation only required if not matching balance sheet 'cash'
- ▶ Payments by a lessee
  - ▶ cash payments for the principal portion of the lease liability - financing
  - ▶ cash payments for the interest portion of the lease liability - interest paid
  - ▶ short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability – operating
- ▶ In balance doesn't mean it's correct

## Direct or Indirect

### Direct method statement of cash flows

- ▶ Operating
  - ▶ Receipts, Payments
- ▶ Investing
  - ▶ Receipts, Payments
- ▶ Financing
  - ▶ Receipts, Payments

### Indirect method statement of cash flows

- ▶ Operating
  - ▶ Profit
  - ▶ Adjust – Depreciation, investment income, interest expense
  - ▶ Adjust movement in trade receivables, payables, inventories
    - ▶ Net cash from operating activities
- ▶ Investing
  - ▶ Receipts, Payments
- ▶ Financing
  - ▶ Receipts, Payments

## How to prepare a cash flow statement

## What you will need

- ▶ Trial balance at start of period
- ▶ Trial balance at end of period
- ▶ General ledger break down for some accounts
  
- ▶ Don't need bank statements, bank account ledger

## Trial balance and movement

| Name  | Current Year | Prior Year | Movement |
|---|--------------|------------|----------|
| <b>Current assets</b>                                 | =====        | =====      | =====    |
| CA - cash and cash equivalents                        | 34,028       | 36,297     | 2,269    |
| CA - trade and other receivables                      | 40,057       | -          | (40,057) |
| <b>Non-current assets</b>                             | =====        | =====      | =====    |
| NA - property, plant and equipment (Cost)             | 9,020        | -          | (9,020)  |
| NA - property, plant and equipment (Acc Depreciation) | (825)        | -          | 825      |
| <b>Current liabilities</b>                            | =====        | =====      | =====    |
| CL - trade and other payables                         | (19,114)     | 791        | 19,905   |
| <b>Non-current liabilities</b>                        | =====        | =====      | =====    |
| NL - borrowings                                       | (19,212)     | -          | 19,212   |
| <b>Equity</b>   | =====        | =====      | =====    |
| EQ - retained profits                                 | 7,912        | -          | (7,912)  |
| <b>Income</b>   | =====        | =====      | =====    |
| Revenue   | (68,378)     | (4,200)    | 68,378   |
| Interest Income                                       | (97)         | -          | 97       |
| <b>Expenses</b>                                       | =====        | =====      | =====    |
| Expenses  | 60,785       | 12,112     | (60,785) |
| Depreciation and amortisation expense                 | 825          | -          | (825)    |
| <b>Other</b>  | =====        | =====      | =====    |
| <b>Adjustments</b>                                    | =====        | =====      | =====    |
| Auto Rounding Adjustment                              | (1)          | -          | 1        |
| Total   | -            | -          | (7,912)  |
| Profit / (loss) for the year after tax                | (6,865)      | 7,912      |          |

## Group movements to Cash Flows

| Non - cash Adjustments |                  | Cash                  | Operating activities     |                                     |                 | Investing activities |                   | Financing                |                  |
|------------------------|------------------|-----------------------|--------------------------|-------------------------------------|-----------------|----------------------|-------------------|--------------------------|------------------|
| Non-cash movements     | Equity movements | Cash balance movement | Receipts from operations | Payments to suppliers and employees | Income tax paid | Acquisition of PPE   | Interest received | Proceeds from borrowings | Allocation check |
|                        |                  | 2,269                 |                          | (40,057)                            |                 |                      |                   |                          |                  |

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## Movements Allocated

| Name  | Trial Balance |            |          | Non - cash Adjustments |                  | Cash                  | Operating activities     |                                     |                 | Investing          | Financing         |                          |                  |
|---|---------------|------------|----------|------------------------|------------------|-----------------------|--------------------------|-------------------------------------|-----------------|--------------------|-------------------|--------------------------|------------------|
|   | Current Year  | Prior Year | Movement | Non-cash movements     | Equity movements | Cash balance movement | Receipts from operations | Payments to suppliers and employees | Income tax paid | Acquisition of PPE | Interest received | Proceeds from borrowings | Allocation check |
| <b>Current assets</b>                                 |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| CA - cash and cash equivalents                        | 34,028        | 36,297     | 2,269    |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| CA - trade and other receivables                      | 40,057        | -          | (40,057) |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Non-current assets</b>                             |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| NA - property, plant and equipment (Cost)             | 9,020         | -          | (9,020)  |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| NA - property, plant and equipment (Acc Depreciation) | (825)         | -          | 825      |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Current liabilities</b>                            |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| CL - trade and other payables                         | (19,114)      | 791        | 19,905   |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Non-current liabilities</b>                        |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| NL - borrowings                                       | (19,212)      | -          | 19,212   |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Equity</b>   |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| EQ -retained profits                                  | 7,912         | -          | (7,912)  |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Income</b>   |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Revenue   | (68,378)      | (4,200)    | 68,378   |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Interest Income                                       | (97)          | -          | 97       |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Expenses</b>                                       |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Expenses  | 60,785        | 12,112     | (60,785) |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Depreciation and amortisation expense                 | 825           | -          | (825)    |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Other</b>  |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| <b>Adjustments</b>                                    |               |            |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Auto Rounding Adjustment                              | (1)           | -          | 1        |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Total   | -             | -          | (7,912)  |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |
| Profit / (loss) for the year after tax                | (6,865)       | 7,912      |          |                        |                  |                       |                          |                                     |                 |                    |                   |                          |                  |

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## Statement of Cash Flows

|  |                |
|--|----------------|
| <b>Cash flows from operating activities</b>                      |                |
| Receipts from operations   | 28,321         |
| Payments to suppliers and employees                              | (40,879)       |
| Net cash generated by (used in) operating activities             | (12,558)       |
| <b>Cash flows from investing activities</b>                      |                |
| Acquisition of PPE   | (9,020)        |
| Interest received  | 97             |
| Net cash generated by (used in) investing activities             | (8,923)        |
| <b>Cash flows from financing activities</b>                      |                |
| Proceeds from borrowings   | 19,212         |
| Net cash generated by (used in) financing activities             | 19,212         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>      | <b>(2,269)</b> |
| Cash and cash equivalents at the beginning of the financial year | 36,297         |
| Cash and cash equivalents at the end of the financial year       | 34,028         |

## Reconciliation of Net Operating Cash Flow to Profit (Loss)

- ▶ Required:
  - ▶ Tier 1 General Purpose
  - ▶ Compliant Special purpose
- ▶ Not Required
  - ▶ Tier 2 General Purpose (SDR)
- ▶ Reference
  - ▶ AASB 1054 (16)
- ▶ **Net profit (loss) for the period after income tax**
- ▶ **Less non-operating cash flows in net profit (loss)**
  - ▶ Depreciation and amortisation
  - ▶ Interest received
  - ▶ Other adjustments
- ▶ **Change in Assets and Liabilities**
  - ▶ Decrease/(increase) in trade and other receivables
  - ▶ Decrease/(increase) in inventories
  - ▶ Decrease/(increase) in other operating assets
  - ▶ Increase/(decrease) in trade and other payables
  - ▶ Increase/(decrease) in other provisions
  - ▶ Increase/(decrease) in other operating liabilities
- ▶ **Net cash provided by operating activities**

# Operating cash flow reconciliation

| Cash Flow Reconciliation |   |                |
|--------------------------|---|----------------|
| Ref                      |   |                |
| A                        | Net profit (loss) for the period after income tax         | 90,476         |
|                          | <b>Less non-operating cash flows in net profit (loss)</b> |                |
| B                        | Depreciation and amortisation                             | 14,054         |
| C                        | Interest received   | (7,108)        |
| D                        | Other adjustments   |                |
|                          | <b>Change in Assets and Liabilities</b>                   |                |
| E                        | Decrease/(increase) in trade and other receivable         | 291,640        |
| F                        | Decrease/(increase) in contract assets                    |                |
| G                        | Decrease/(increase) in accrued revenue                    |                |
| H                        | Decrease/(increase) in inventories                        |                |
| I                        | Decrease/(increase) in deferred tax assets                |                |
| J                        | Decrease/(increase) in prepayments                        |                |
| K                        | Decrease/(increase) in other operating assets             | (398)          |
| L                        | Increase/(decrease) in trade and other payables           | (15,666)       |
| M                        | Increase/(decrease) in contract liabilities               |                |
| N                        | Increase/(decrease) in provision for income tax           |                |
| O                        | Increase/(decrease) in deferred tax liabilities           |                |
| P                        | Increase/(decrease) in employee benefits                  |                |
| Q                        | Increase/(decrease) in other provisions                   | 21,912         |
| R                        | Increase/(decrease) in other operating liabilities        | (154,884)      |
|                          | <b>Net cash provided by operating activities</b>          | <b>240,028</b> |
|                          | Balance Check   |                |

*Should be nil - Difference between operating cashflow on statement of cash flows and reconciliation*

# Operating cash flow reconciliation

| Name  | Current Year | Trial Balance | Non-cash Adjustments | Cash                  | Operating activities               | Investing activities          | Financing activities     |
|---|--------------|---------------|----------------------|-----------------------|------------------------------------|-------------------------------|--------------------------|
|   |              | Prior Year    | Equity Investments   | Cash balance movement | Receipts from operating activities | Proceeds from disposal of PPE | Proceeds from borrowings |
| <b>Current assets</b>                                 |              |               |                      |                       |                                    |                               |                          |
| Cash and cash equivalents                             | 760,748      | 1,046,098     |                      | 285,350               | 291,640                            |                               |                          |
| Trade and other receivables                           | 184,348      | 476,588       |                      |                       | (398)                              |                               |                          |
| Other assets  | 3,425        | 3,027         |                      |                       |                                    |                               |                          |
| <b>Non-current assets</b>                             |              |               |                      |                       |                                    |                               |                          |
| Property, plant and equipment                         | 5,165,573    | 5,201,429     | 24,054               | 262,847               |                                    | (241,045)                     |                          |
| <b>Current liabilities</b>                            |              |               |                      |                       |                                    |                               |                          |
| Trade and other payables                              | 2,622        | (13,044)      |                      |                       | (15,666)                           |                               |                          |
| Provisions  | (29,227)     | (20,276)      |                      |                       | 9,951                              |                               |                          |
| Other liabilities                                     | 149          | 497           |                      |                       | 348                                |                               |                          |
| <b>Non-current liabilities</b>                        |              |               |                      |                       |                                    |                               |                          |
| Borrowings  | (3,539,849)  | (3,881,289)   |                      |                       |                                    |                               | (291,440)                |
| Provisions  | (41,668)     | (28,707)      |                      |                       | 12,861                             |                               |                          |
| Other liabilities                                     | (180,600)    | (315,832)     |                      |                       | (155,232)                          |                               |                          |
| <b>Equity</b>   |              |               |                      |                       |                                    |                               |                          |
| Reserves  | (1,884,439)  | (1,992,421)   | 154,665              | (262,847)             |                                    |                               |                          |
| Retained earnings                                     | (411,682)    | (475,871)     | (64,189)             |                       |                                    |                               |                          |
| <b>Income</b>   |              |               |                      |                       |                                    |                               |                          |
| Revenue   | 217,607      | (111,324)     |                      | 217,607               |                                    |                               |                          |
| Finance income  | (7,108)      | (18,009)      |                      |                       |                                    |                               | 7,108                    |
| Other income  | (159,036)    | (138,800)     |                      | 139,036               |                                    |                               |                          |
| <b>Expenses</b>                                       |              |               |                      |                       |                                    |                               |                          |
| Administrative expenses                               | 58,355       | 60,442        |                      |                       | (68,955)                           |                               |                          |
| Depreciation expenses                                 | 14,054       | 22,879        |                      |                       | (14,054)                           |                               |                          |
| Employee benefits expenses                            | 181,605      | 155,391       | (14,054)             |                       | (181,605)                          |                               |                          |
| Finance expenses                                      | 86,596       | 100,270       |                      |                       | (86,596)                           |                               |                          |
| Other expenses  | (87,437)     | (37,010)      |                      |                       | 67,437                             |                               |                          |
| <b>Other Adjustments</b>                              |              |               |                      |                       |                                    |                               |                          |
| Less Current Year Earnings double counted by Agile TB | 90,476       | 124,241       |                      |                       |                                    |                               |                          |
| Auto Rounding Adjustment                              | -            | 1             |                      |                       |                                    |                               |                          |
| <b>Total</b>  |              |               |                      | 285,350               | 648,283                            | (241,045)                     | (291,440)                |

# Worked Example 2

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# Conclusion

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# Has your perception changed about cash flow statements?


No, I still don't like them...



Yep! I feel so much better now.



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# Q & A



Alastair Abbott  
Director, Australian Audit



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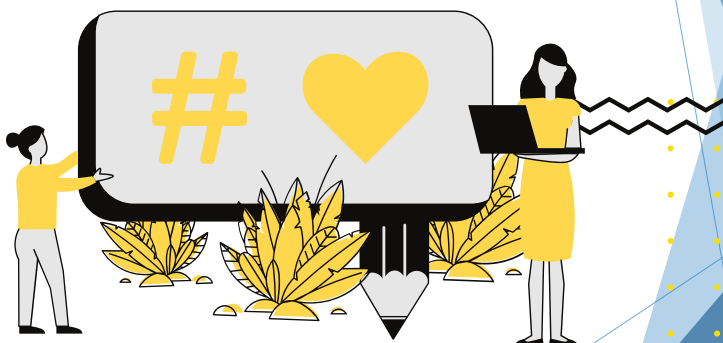
# What was your key takeaway?

An illustration depicting business and innovation. A person in a white lab coat stands on a scissor lift, holding a large gear. Another person in a white dress is climbing a yellow rocket. A third person in a black dress stands on the ground holding a document. The background features a blue and white geometric pattern with yellow dots and a yellow sun on the left.

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## How would you rate today's session? Any feedback?

An illustration representing feedback and social media. A person in a yellow shirt points to a large grey screen displaying a yellow hashtag (#) and a yellow heart. Another person in a yellow dress stands next to the screen holding a laptop. The background features a blue and white geometric pattern with yellow dots and a yellow sun on the left.

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