



National Diploma Plant/Animal Farm Finance

Handout 6B

SAICA(Ltd) Model Answer Cash Flow from Operating Activities

1. CASH FLOWS FROM OPERATING ACTIVITIES

Profit before taxation	12 000
Adjust for:	
Depreciation	12 295
Interest paid	3 200
Profit on disposal of Plant	(1 300)
Investment income	389
Operating profit before changes in working capital	<u>25 806</u>
Changes in working capital	(1 710)
Decrease in inventory (21 850-19 300)	2 550
Increase in debtors (25 380-22 750)	(2 630)
Decrease in creditors (27 500-25 870)	(1 630)
Cash generated by operations	24 096
Investment income	389
Interest paid	(3 200)
Taxation paid (6 000+5 400-5 400)	(6 000)
Dividends paid (600+1 400-300)	(1 700)
	<u><u>13 585</u></u>

EXPLANATION

- Depreciation is added back because it is not a flow of funds and because it originally decreased the profit.
- Profit on disposal of Equipment is another item that is not a flow of funds. Therefore, it must be subtracted because it originally increased the profit.
- The only reasons to subtract the investment income and to add the interest paid are because they both influenced the profit before taxation, and both have their own heading in the calculation of the cash flows from operating activities.
- The taxation paid and dividends paid can also be calculated as follows:

- Taxation

Unpaid amounts at beginning of year	6 000
Amount in Income Statement	5 400
Unpaid amounts at the end of the year	(5 400)
	<u>6 000</u>

Dividends

Unpaid amounts at beginning of year	6 00
Amount in Income Statement (Ordinary + Preference)	1400
Unpaid amounts at the end of the year	(3 00)
	<u>1 700</u>

The amounts in brackets indicate an outflow of funds except for the adjustments to the profit before taxation.