

## Week 12 & 13 : Cash Flow Statement

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A cash flow statement is regarded as an important indicator of financial performance. It presents information that is not available from the income statement and balance sheet.

Without cash a business may not be able to meet its debts as they fall due. It could then be put into liquidation, even if it is profitable.

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## Concept 1

Net Profit =

Cash sales +	-	Cash purchase +	-	Cash expense +
Credit sales		Credit purchase	+	Accruals
			-	Prepayment
			-	Depreciation
			-	Doubtful Debt
			-	Bad Debt
<u>Revenue</u>		<u>Expenses</u>		<u>Expenses</u>

Cash & Bank = Cash sales - Cash purchase - Cash expense

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### *Implication*

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Cash is more objective than profit, because various estimates (such as depreciation and doubtful debt) have to be made to calculate profit.



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## Concept 2

The cash movement of all activities of the firm could be illustrated as follows.

*Financing Activities:* Activities that result in changes in the size and composition of the equity capital and borrowings of the firm.

*Investing Activities:* Activities like acquisition and disposal of long-term assets and other investments

*Operating Activities:* Key revenue-generating activities of the firm.

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## *Implication*

### *Bank & Cash*

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#### *Operating Activity*

*\$ Net profit from operation*

*\$ To trade creditors*

*\$ From trade debtors*

#### *Investing Activity*

*\$ From sale of fixed assets*

*\$ Acquire fixed assets*

*\$ From sale of investments*

*\$ Acquire investments*

#### *Financing Activity*

*\$ From ordinary shares*

*\$ For ordinary dividend*

*\$ From preference shares*

*\$ For principal + dividend*

*\$ From long term liability*



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## *Presentation*

### Cash flows from operating activities

Operating Profit (before tax)			X
Adjustment for non-cash flow items			
- Depreciation			X
- Interest paid			X
- (Profit) / loss on disposal			<u>(X)/X</u>
			X
Changes in working capital			
- (Increase) / Decrease in stocks	(X) / X		
- (Increase) / Decrease in debtors	(X) / X		
- Increase / (Decrease) in creditors	<u>X / (X)</u>		
			<u>X</u>
Cash generated from operations			X
- Interest paid	(X)		
- Income taxes paid	<u>(X)</u>		
			(X)

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## *Presentation*

*Net cash generated from / (used in) operating activities* x / (x)

### **Cash flows from investing activities**

Purchase of fixed assets (x)

Proceeds from sale of fixed assets x

Interest received x

Dividends received x

*Net cash generated from / (used in) investing activities* x / (x)

### **Cash flows from financing activities**

Proceeds from issuance of share capital x

Share repurchase (x)

Proceeds from long term borrowings x

Repayment of long term borrowings (x)

Dividend paid (x)

*Net cash generated in / (used in) financing activities* x / (x)



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## *Presentation*

Net increase / (decrease) in cash and cash equivalents	x / (x)
Cash and cash equivalents at beginning of period	<u>x</u>
Cash and cash equivalents at end of period	<u>x</u>

