

## **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.

# Week 12 & 13 : Cash Flow Statement

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## Concept 1

Net Profit =

Cash sales + Credit sales	-	Cash purchase + Credit purchase	-	Cash expense + 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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<i>Operating Activity</i>	<i>\$ Net profit from operation</i> <i>\$ From trade debtors</i>	<i>\$ To trade creditors</i>
<i>Investing Activity</i>	<i>\$ From sale of fixed assets</i> <i>\$ From sale of investments</i>	<i>\$ Acquire fixed assets</i> <i>\$ Acquire investments</i>
<i>Financing Activity</i>	<i>\$ From ordinary shares</i> <i>\$ From preference shares</i> <i>\$ From long-term liability</i>	<i>\$ For ordinary dividend</i> <i>\$ For principal + dividend</i>

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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 from / (used in) financing activities* x / (x)

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## *Presentation*

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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>