

FACULTY OF COMMERCE

Subject of Bank risks (Ch.3)

Eslam Elshafie

كلية التجارة

— جامعة مدينة السادات —

**2023**

**Cash  
1/1**

**Cash  
31/12**

**5,000 L.E.**

**35,000 L.E.**

**+30,000 L.E.**

**+   
Cash inflow  
(cash receipts)**

**-   
Cash outflow  
(cash payments)**

**Operating Activities**

**+ **

**- **

**Cash inflow**

**Cash outflow**

**Investing Activities**

**+ **

**- **

**Cash inflow**

**Cash outflow**

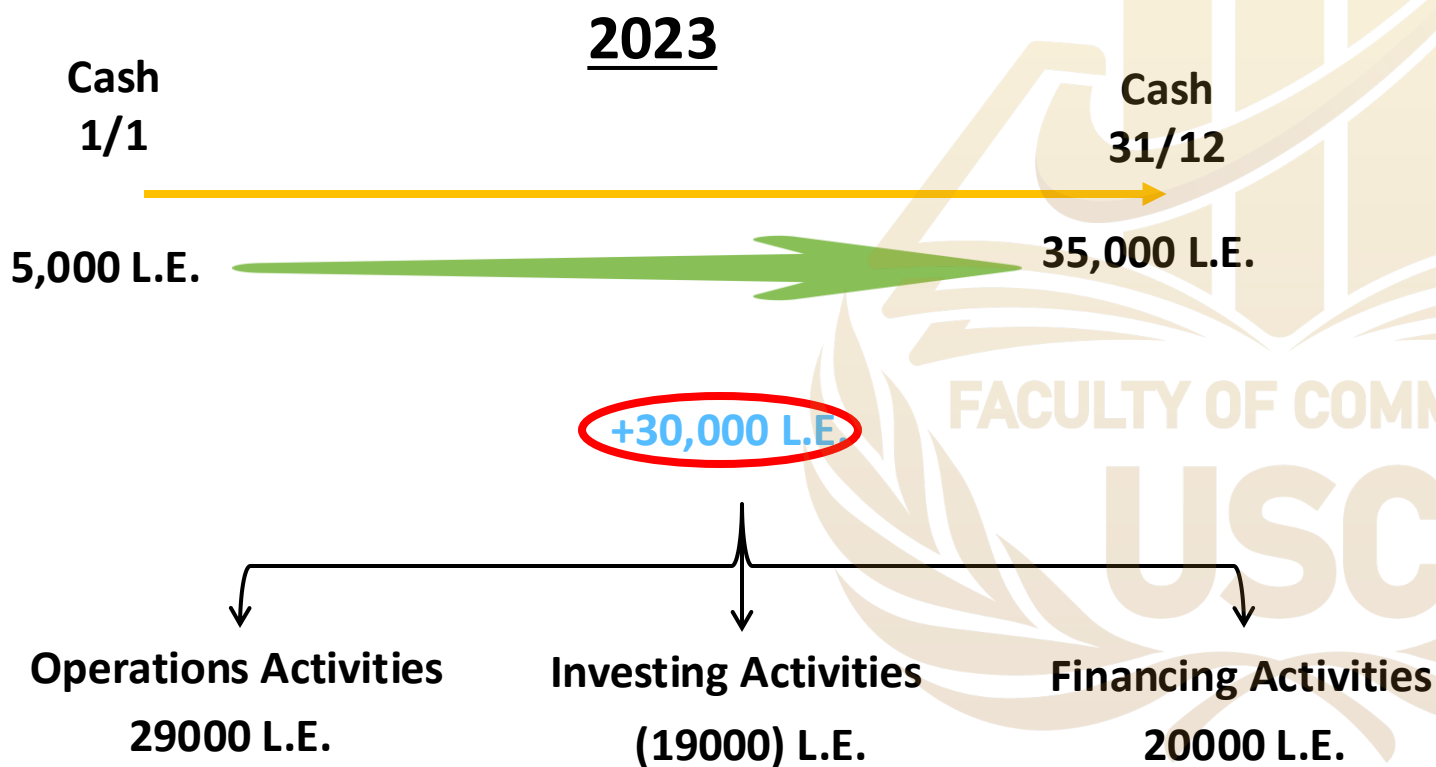
**Financing Activities**

**+ **

**- **

**Cash inflow**

**Cash outflow**



## Statement of Cash Flows

(Indirect Method)

Ice Cream Stand Business

For the year ended 31 December 2020

	[31 Dec 20]
<b>OPERATING ACTIVITIES</b>	
Net income	\$25,000
<b>Adjustments for non-cash items</b>	
Depreciation	\$1,000
<b>Changes in operating assets &amp; liabilities</b>	
Accounts receivable	\$(500)
Accounts payable	\$3,500
<b>Net cash provided by operating</b>	<b>\$29,000</b>
<b>INVESTING ACTIVITIES</b>	
Proceeds from sale of fixed assets	\$1,000
Payment for fixed assets	\$(20,000)
<b>Net cash provided by investing</b>	<b>\$(19,000)</b>
<b>FINANCING ACTIVITIES</b>	
Proceeds from long-terms loans	\$20,000
<b>Net cash provided by financing</b>	<b>\$20,000</b>
<b>NET CASH FLOWS:</b>	<b>\$30,000</b>
<b>CASH BALANCES</b>	
Cash at the beginning of the period	\$5,000
Cash at the end of the period	\$35,000
<b>Net changes in cash for the period</b>	<b>\$30,000</b>

**To prepare the statement of cash flows, the following information is required:**

- **Comparative statement of financial position;**
- **Income statement for the current period; and**
- **Additional information.**

**There are two methods for preparing the statement of cash flows:**

- **Direct Method**
- **Indirect Method**

**Indirect Method  
(Using Six blocks)**

**Direct Method**

### Operating Activities

- ✓ Income statement transactions
- ✓ Changes in Current Assets
- ✓ Changes in Current Liabilities

### Investing Activities

- ✓ Changes in Non-current Liabilities  
(Fixed Assets, Long-term investments, and Intangible assets)

### Financing Activities

- ✓ Changes in non-current Liabilities
- ✓ Changes in equity

### Balance Sheet

Current Assets

Current Lia.

Non- current Assets

Non-current Lia.

Equity

→ Operating Activities

→ Financing Activities

Investing Activities

## Example (1) EL-SADAT Company has the following data for the years of 2019/2020:

### Comparative Statement of Financial Position

Explanation/Years	2019	2020	Change
<b>Assets</b>			
Lands	0	7,000	7,000
Buildings	0	20,000	20,000
Accumulated dep.- Buildings	0	-1,100	-1,100
Equipment	0	6,800	6,800
Accumulated dep.- Equipment	0	-1,000	-1,000
Debtors	3,600	2,600	-1,000
Prepaid expenses	0	600	600
Cash	4,900	3,700	-1,200
<b>Total assets</b>	<b>8,500</b>	<b>38,600</b>	<b>30,100</b>
<b>Liabilities &amp; Owner's Equity</b>			
Common stock, par value 1 L.E	6,000	6,000	0
Retained earnings	2,000	13,600	11,600
Creditors	500	4,000	3,500
Bonds payable	0	15,000	15,000
<b>Total Liabilities &amp; Owner's Equity</b>	<b>8,500</b>	<b>38,600</b>	<b>30,100</b>

### Income Statement for the period of 31/12/2020

Explanation	Partial	Total
Sales		49,200
Deduct: operating expenses without Dep.	26,900	
Depreciation exp.	2,100	-
Gross Profit		29,000
Income tax	-6,800	20,200
Net income		13,400

### Additional Information

- 1- Cash dividends are 1800 L.E.
- 2- Bonds were issued and collected in cash 15000 L.E.
- 2- Purchase of land, equipment, and buildings in cash

### Required:

Prepare a statement of cash flows for EL-SADAT Company for the period ending on 12/31/2020 using:

✓ Direct method.

## Direct Method


Explanation	Partial	Total
<b>Operating activities</b>		
Sales	49,200	
Operating expenses	-26,900	
Income tax	-6,800	15,500
Debtors	1,000	
Prepaid expenses	-600	
Creditors	3,500	3,900
<b>Net cash flow from operating activities</b>		<b>19,400</b>
<b>Investing activities</b>		
Purchasing of lands	-7,000	
Purchasing of buildings	-20,000	
Purchasing of equipment	-6,800	
<b>Net cash flow from investing activities</b>		<b>-33,800</b>
<b>Financing activities</b>		
Issuing bonds	15000	
Cash dividends	-1,800	
<b>Net cash flow from financing activities</b>		<b>13200</b>
<b>Total net cash flows</b>		<b>-1200</b>
<b>Add: Beginning cash balance</b>		<b>4900</b>
<b>Ending cash balance</b>		<b>3700</b>





### Significant Non-cash investing and financing activities

- ✓ Issuance of common stock to purchase assets.
  - ✓ Conversion of bonds into common stock.
  - ✓ Issuance of debt to purchase assets.
  - ✓ Exchanges of plant assets.
- Companies report these activities in either a separate schedule at the bottom of the statement of cash flows or in a separate note to the financial statements.



Description	Amount
Beginning RE	60,000 L.E.
+/- Net Income (Loss) for period	??????
- Dividends declared	(75,000)
Ending RE	120,000 L.E.



**A company wishes to establish a new production line, with an estimated investment cost of 5 million EGP to produce 500,000 units. There is no resale value for this line at the end of its economic life. The company expects the average annual sales of this line to be 100,000 units at a price of 100 EGP per unit, with 60% of the sales collected in cash and the remaining 40% collected in the following year. The average cost per unit is estimated to be 70 EGP, including a depreciation charge of 10 EGP.**

**Required:**

- ✓ **Estimate the accounting profit for this production line in the first year.**
- ✓ **Estimate the net cash flows for this production line in the first year.**

### 1- Determining the accounting profit for this production line in the first year:

**Accounting profit = Sales revenue – Cost of sales**

Where:

- Sales revenue = (100,000 units × 100 EGP) = 10,000,000 EGP.
  - Cost of sales = (100,000 units × 70 EGP) = 7,000,000 EGP
- Thus, net accounting profit = 10 million EGP – 7 million EGP = 3,000,000 EGP.

### 2- Estimating the net cash flows for this production line in the first year:

- Determining the cash collections for the production line:

Statement	Year 1	Year 2
Sales Value	10,000,000	10,000,000
60% Collection during the same year	6,000,000	6,000,000
40% Collection in the following year	---	4,000,000
Total Collections	6,000,000	10,000,000

- Determining the net cash flows for the production line:

Statement	Year 1	Year 2
Total Collections	6,000,000	10,000,000
Less:		
Expenses without Depreciation (60 x 100,000)	(6,000,000)	(6,000,000)
Net Cash Flow for the Production Line	0	4,000,000

Below are the balance sheet and income statement of Omran Agricultural Development Company for the fiscal year ending on 31/12/2024 (amounts in thousand Egyptian pounds):

1- Balance Sheet as of 31/12/2024:

Description	2023	2024
Current Assets		
Cash	259	310
Receivables and Debtors	2,599	2,744
Inventory	601	638
Total Current Assets	3,459	3,692
Fixed Assets		
Buildings and Other Fixed Assets	96	96
Machinery and Equipment	--	91
Total Fixed Assets	96	187
- Accumulated Depreciation	(12)	(12)
Net Fixed Assets	84	175
Total Assets	3,543	3,867

Description	2023	2024
<b>Liabilities and Equity</b>		
<b>Payables and Creditors</b>	<b>18</b>	<b>16</b>
<b>Loans</b>	<b>--</b>	<b>--</b>
<b>Total Liabilities</b>	<b>18</b>	<b>16</b>
<b>Equity</b>		
<b>Paid-in Capital</b>	<b>1,000</b>	<b>1,000</b>
<b>Retained Earnings</b>	<b>2,525</b>	<b>2,851</b>
<b>Total Equity</b>	<b>3,525</b>	<b>3,851</b>
<b>Total Liabilities and Equity</b>	<b>3,543</b>	<b>3,867</b>

## 2- Income Statement for the Company for the Year Ended 31/12/2024:

Statement	Partially	Total
Revenues		11,978
(-) Cost of Goods Sold		(9,025)
Gross Profit		2,953
(-) Other Expenses:		
* Salaries & Employee Benefits	21	
* Selling & Administrative Expenses	67	
* Depreciation	14	
Total Expenses		(102)
Operating Profit		2,851
(-) Financing Expenses		-
(-) Other Expenses		-
Net Profit After interests		2,851
(-) Taxes		-
Net Profit (Loss)		2,851

## Required:

- ✓ Prepare the cash flow statement for the company for the fiscal year ending on 31/12/2024 according to the Six Blocks method.



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## Cash Flow Statement According to Six blocks

Step	Description	Partial	Total
Block 1	Adjusting Net Profit:		2851
	Net profit after extraordinary items		2851
	+ Financial expenses	--	
	<b>Net Operating Profit after Taxes (NOPAT):</b>	<b>2851</b>	
Block 2	Non-cash expenses:		
	+ Depreciation	14	
	+ Amortization	--	
	<b>Cash generated from operating profit after taxes (COPAT):</b>	<b>2865</b>	
Block 3	Net changes in working capital:		
	-/+ Changes in receivables and debtors	(145)	
	-/+ Changes in inventory	(37)	
	-/+ Changes in payables and creditors	(2)	
	<b>Cash after regular operating activities (CACO):</b>	<b>2681</b>	

Block 4	Financing used for operational activities:		
	Financial charges	--	
	Cash generated before long-term financial use (CBLTU):	2681	
Block 5	Cash used for capital expenditure (investment):		
	Net changes in fixed assets	(105)	
	Cash before external financing (CBF):	2576	
Block 6	External financing (sources and uses of cash):		
	-/+ Changes in short-term loans	--	
	- Dividends distributed to shareholders	(2525)	
	Net increase (decrease) in cash:	51	
	+ Cash balance at the beginning of the period	259	
	= Cash balance at the end of the period	310	



**The End**

**Thank you**

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