

## Con.. Chapter 3

# Analysis of Cash Flows for Investment Projects “Statement of Cash Flows Using the Six Blocks Approach”

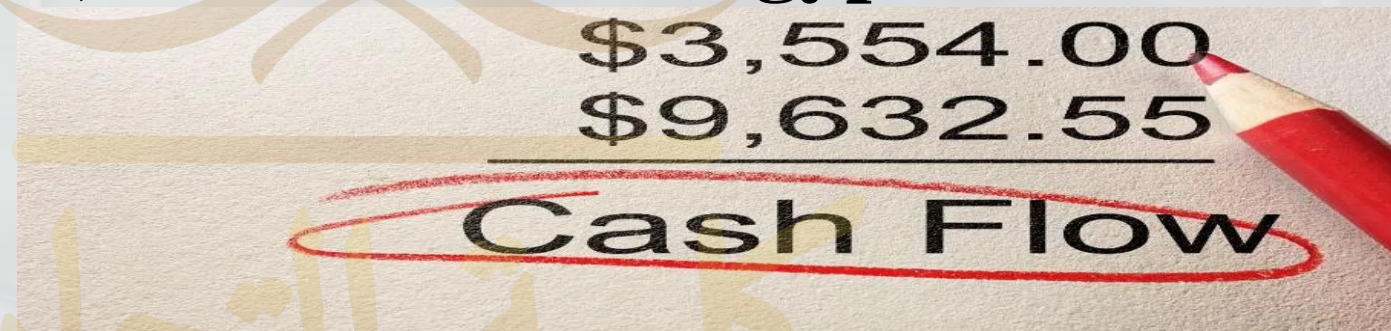


#### **Fourth: Cash Flow Statement According to the Six Blocks Method.**

**The Advanced approach to financial analysis** for the purposes of evaluating projects, whether current or new, relies on the items of the cash flow statement, which reflect changes in the financial position over consecutive financial periods and the results of operations for a specific financial period.

#### Fourth: Cash Flow Statement According to the Six Blocks Method.

**This approach is based** on dividing the cash flow statement into six main parts, known as Six Blocks. Each part relates to a set of management decisions that are interconnected, as follows (Egyptian Banking Institute, 2016):





## **Fourth: Cash Flow Statement According to the Six Blocks Method.**

- 1. Ordinary profits from operating activities.**
- 2. Non-cash expenses included in operating activities.**
- 3. Cash used in working capital investment and other current balances.**



## **Fourth: Cash Flow Statement According to the Six Blocks Method.**

- 4. Cash used for repaying financial obligations.**
- 5. Cash used for capital expenditures on fixed assets or short-term investments.**
- 6. Cash used or received from financing sources.**



## Cash Flow Statement According to the Six Blocks Method

Step	Statement	Partial	Whole
Block 1	<b>Adjusting Net Profit:</b>		
	Net profit after non-operating activities.	×	
	+ Financing expenses.	×	
	+ Non-operating revenues or losses (gains/losses from investments).	×	
	+ Non-operating losses from investments.	×	
	+ Allocated current and deferred taxes.	×	
	+ Miscellaneous revenues.	(×)	
	- Interest revenues (credit interests).	(×)	
	- Dividends from financial securities.	(×)	
	+ / - Capital Interest.	(×)	
	+ / - Paid taxes.	(×)	
	+ / - Investments, taxes, and credit	(×)	
	<b>NOPAT (Net Operating Profit After Tax)</b>		xx





## Fourth: Cash Flow Statement According to the Six Blocks Method.

Block 2	Non-cash expenses:		
	+ Depreciation.	X	
	+ Amortization.	X	
	+ Depletion.	X	
	+ Provision for doubtful debts (used for debtors).	X	
COPAT (Cash Operating Profit After Tax)			XX



## Fourth: Cash Flow Statement According to the Six Blocks Method.

Block 3	Cash flows from changes in working capital:		
	+ / - Change in receivables and notes.	×	
	+ / - Increase/decrease in receivables and notes.	×	
	+ / - Changes in inventory.	×	
	+ / - Changes in accounts payable and creditors.	×	
	+ / - Changes in accrued expenses.	×	
	+ / - Changes in prepaid expenses.	×	
	+ / - Other current assets and liabilities.	(×)	
CACO (Cash After Current Operations)			xxAc





## Fourth: Cash Flow Statement According to the Six Blocks Method.

Block 4	Cash used in financing activities:		
	- Interest expenses.	(X)	
	-The current portion of a long-term loan	(X)	
Cash used before long-term uses (CBLTU):			(XX)



## Fourth: Cash Flow Statement According to the Six Blocks Method.

Block 5	Cash used in investment activities:		
	- Net capital expenditures.	(×)	
	+ Investments, taxes, insurance.	×	
	+ Miscellaneous income.	×	
	+ Dividend income (net interest).	×	
	Dividend income.	×	
	+/- Marketable securities.	×	
	+/- Changes in investments.	×	
	+/- Changes in fixed assets and semi-fixed liabilities.	×	
Cash before Financing (CBF)			xx





**Fourth: Cash Flow Statement According to the Six Blocks Method.**

<b>Block 6</b>	<b>External financing (sources and uses of cash):</b>		(xx)
	<b>+/- Changes in short-term loans.</b>	x	
	<b>+/- Changes in long-term loans.</b>	x	
	<b>+/- Cash dividends for minority shareholders.</b>	x	
	<b>+/- Net cash dividends to shareholders.</b>	x	
	<b>- Dividend payouts.</b>	x	
<b>Increase (decrease) in cash.</b>			xx
<b>+ Beginning cash balance.</b>			xx
<b>Ending cash balance.</b>			xx





## Activity No. (1)

- ❑ **Activity nature:** Discussion.
- ❑ **Activity Time:** 5 minutes.
- ❑ **Task:** Discuss The cash flow statement six main parts



**5 minute break.....**

**Tea Break**



## Indicative example.....

- ❑ **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):**

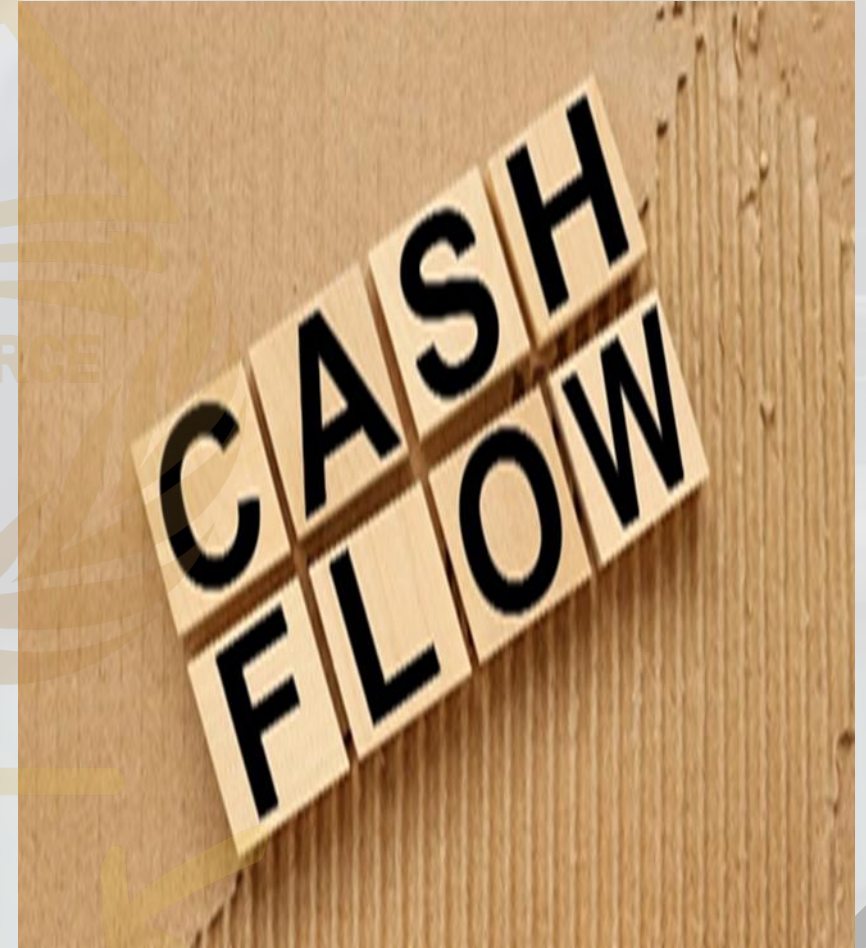




# Indicative example.....

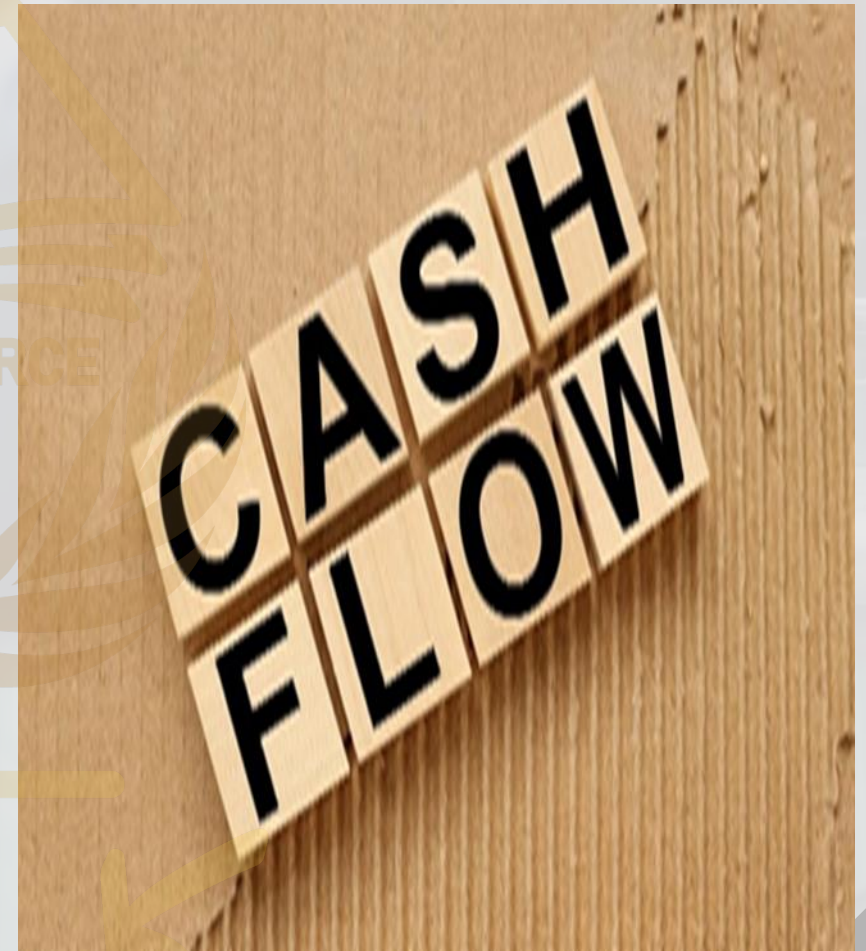
## 1- Balance Sheet as of 31/12/2024:

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



## Indicative example.....

<b>Liabilities and Equity</b>		
<b>Payables and Creditors</b>	18	16
<b>Loans</b>	—	—
<i>Total Liabilities</i>	18	16
<b>Equity</b>		
<b>Paid-in Capital</b>	1,000	1,000
<b>Retained Earnings (Accumulated Losses)</b>	2,525	2,851
<i>Total Equity</i>	3,525	3,851
<b>Total Liabilities and Equity</b>	3,543	3,867

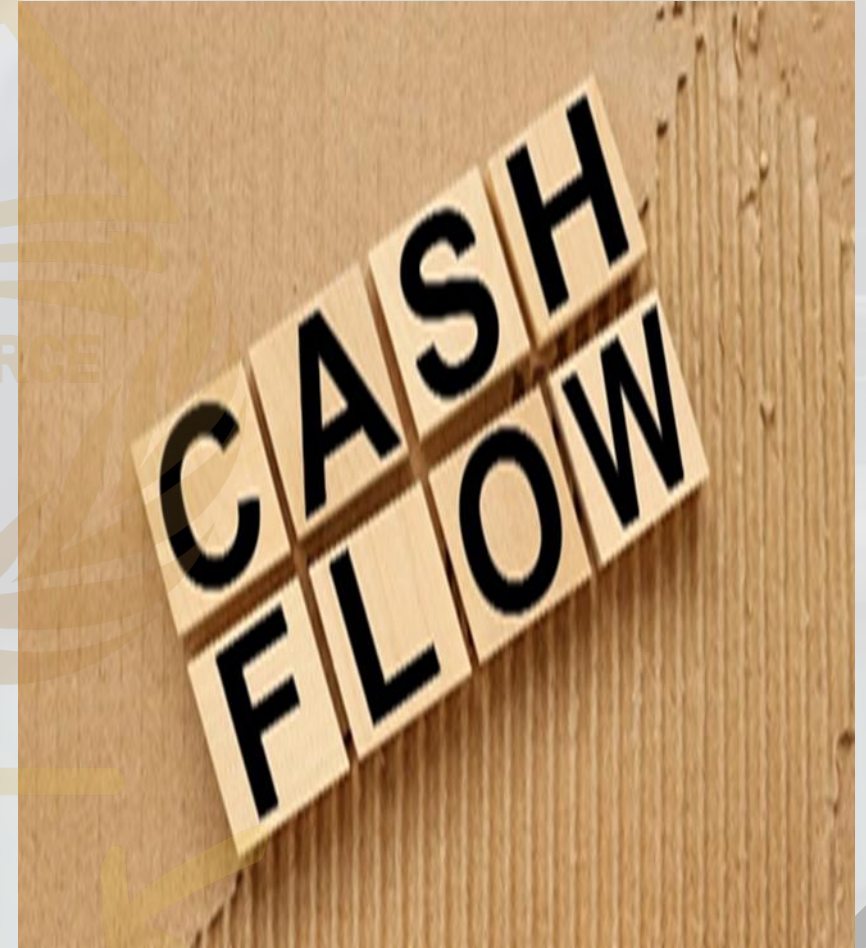




## Indicative example.....

### 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



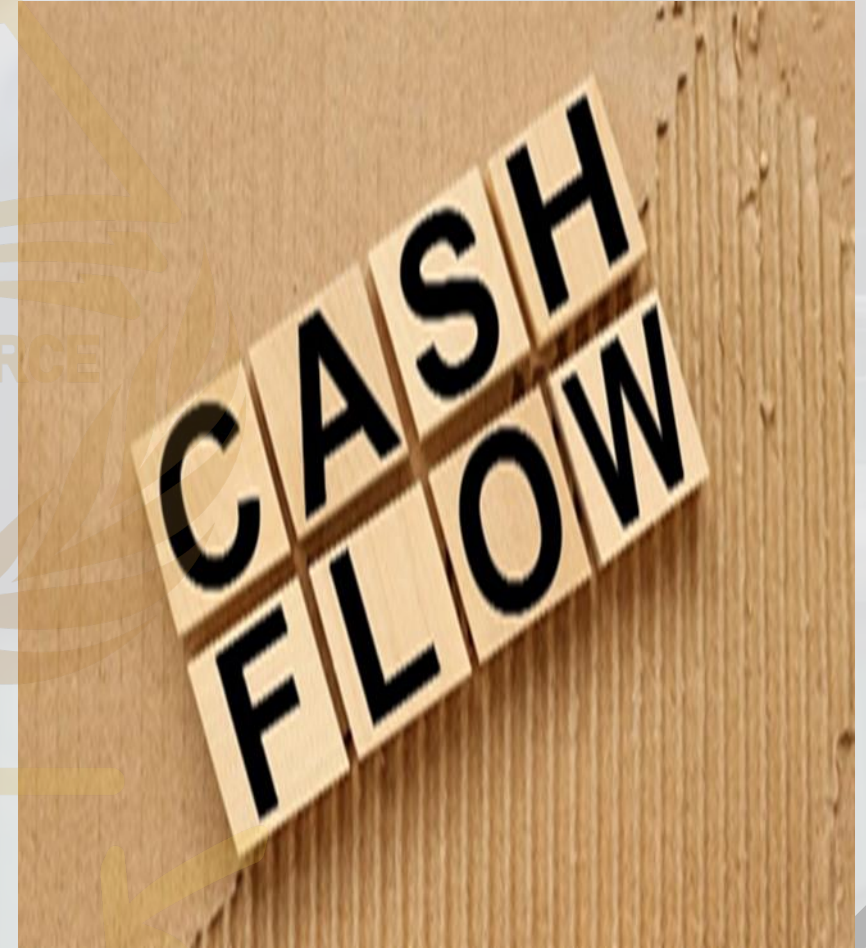


## Indicative example.....

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.



# Indicative example.....

## Cash Flow Statement According to the Six Blocks Method:

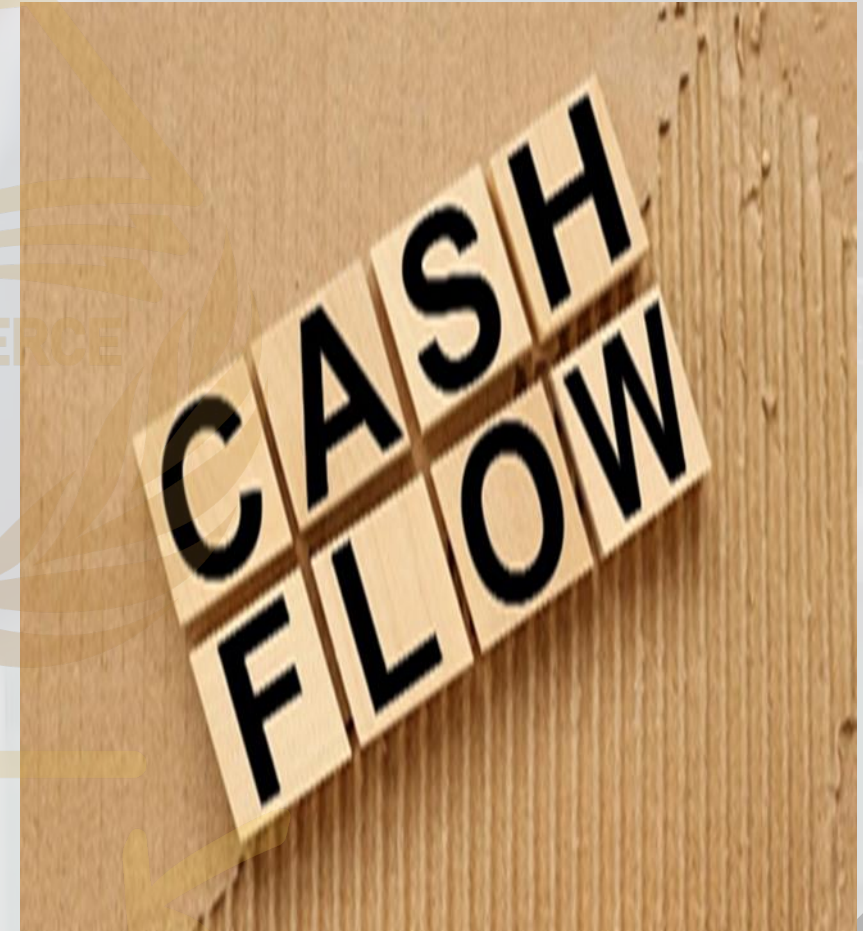
Step	Description	Partial	Total
Block 1	Adjusting Net Profit:		
	Net profit after extraordinary items	2851	
	+ Financial expenses	—	
	Net Operating Profit after Taxes (NOPAT):		2851
Block 2	Non-cash expenses:		
	+ Depreciation	14	
	+ Amortization	—	
	Cash generated from operating profit after taxes (COPAT):		2865





## Indicative example.....

Block 3	Net changes in working capital:		
	-/+ Changes in receivables and debtors	(145)	
	-/+ Changes in inventory	(37)	
	-/+ Changes in payables and creditors	(2)	
	Cash after regular operating activities (CACO):		2681
Block 4	Financing used for operational activities:		
	Financial charges	—	
	Cash generated before long-term financial use (CBLTU):		2681





## Indicative example.....

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



## Indicative example.....

### ❑ Notes on the Solution:

#### 1. Determining the Change in Assets and Liabilities:

Item	2023	2024	Amount of Change
Assets			
Accounts Receivable & Customers	2,599	2,744	145
Inventory	601	638	37
Fixed Assets	84	175	91
Liabilities			
Notes Payable & Suppliers	18	16	(2)

## Indicative example.....

### 2- Interpretation of Changes in Assets and Liabilities:

#### ✓ Increase in Accounts Receivable and Debtors:

❑ **Customer Receipts** The increase in the balance of accounts Receivable and debtors indicates that cash has not been collected from customers due to credit sales. Thus, it represents a use of cash, which is deducted from the customer receipts as follows:

$$= \text{Sales} - \text{Increase in A/R and Debtors} = 11,978 - 145 = 11,833$$



## Indicative example.....

- ✓ **Change in Inventory:** The change in inventory reflects a cash outflow of 37 thousand EGP, which is treated as an operating activity cash outflow.
- ✓ **Change in Fixed Assets:** The increase in fixed assets by 91 thousand EGP indicates a use of cash. Additionally, the depreciation amount of 14 thousand EGP listed in the income statement should be accounted for. Thus, the total deduction for fixed asset changes is 105 thousand.

## Indicative example.....

- ✓ **Decrease in Notes Payable and Suppliers:** The decrease in the balance of notes payable and suppliers by 2 thousand EGP also represents a use of cash.
- ✓ **Note:** The ending cash balance of 310 thousand EGP is the same as the cash balance shown in the balance sheet for 2024.



# Presentation activity.....

- ❑ **Activity nature:** Presentation.
- ❑ **Activity Time:** 10: 12 minutes.
- ❑ **Skills:** Professional financial analysis







# The Next Lecture

## Chapter 4

**Analysis and Management of Banking**

**Risks in Commercial Banks**

