

Chapter 3

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



CASH
FLOW

First: The Concept and Objectives of the Cash Flow Statement.

1-Concept of the Cash Flow Statement: The cash flow statement is a type of financial statement that focuses on identifying cash receipts (inflows) and cash payments (outflows) based on the main activities of the project, with the aim of recognizing changes in the cash balance during a specific financial period. From this definition, the following points can be noted:

First: The Concept and Objectives of the Cash Flow Statement.

- ☐ **The cash flow statement divides the project into three main activities: (operating activities, investing activities, and financing activities).**
- ☐ **The cash flow statement is primarily based on the cash basis of accounting.**

First: The Concept and Objectives of the Cash Flow Statement.

- ❑ Net cash flow for each of the three activities is determined by comparing cash inflows with cash outflows.
- ❑ The cash flow statement helps determine **the cash balance at the end of the period**, thus identifying the amount of increase or decrease in cash.

First: The Concept and Objectives of the Cash Flow Statement.

2-Objectives of the Cash Flow Statement:

- ❑ To assess the ability of the investment project to generate future cash flows by identifying the primary and secondary sources that provide future cash flows throughout the project's productive life.



First: The Concept and Objectives of the Cash Flow Statement.

- ❑ To evaluate the project's ability to meet its obligations as they come due and pay annual distributions to equity holders, by identifying the aspects and elements of cash payments, their timing, and the risks associated with failing to meet these obligations.**



First: The Concept and Objectives of the Cash Flow Statement.

- ❑ To study and analyse investment transactions and the cash flows resulting from them, whether inflows or outflows.**
- ❑ To determine the amount of increase or decrease in cash at the end of the period, paving the way for seeking funding sources in case of a deficit or exploring investment alternatives in case of a cash surplus.**

Second: The Nature of Cash Sources and Uses for the Project.

1-Sources and Uses of Cash: There are three main sources for generating and using cash in projects, which can be outlined as follows:

❑ **Cash flows from operating activities:** The primary source of cash in most business activities is the net profit from operating activities, representing the surplus from revenues generated by sales and other income after deducting all expenses related to operations.

Second: The Nature of Cash Sources and Uses for the Project.

- ❑ **Cash flows from investing activities:** Investing activities are a source of cash generation through the reduction of current assets (excluding cash) and/or the sale of fixed assets and securities.



Second: The Nature of Cash Sources and Uses for the Project.

- ❑ Cash flows from financing activities:** Financing activities are a source of cash generation through obtaining or increasing loans and/or issuing shares. These sources depend on the success of the project in meeting its cash needs from operating activities, as new investors, banks.....

Activity No. (1)

- ❑ **Activity nature:** Discussion.
- ❑ **Activity Time:** 5 minutes.
- ❑ **Task:** Discuss The Objectives of the Cash Flow Statement



5 minute break.....

Tea Break



Third: Different Methods for Preparing the Cash Flow Statement.

- ❑ **Direct Method:** According to this method, each item in the income statement is adjusted from the accrual basis to the cash basis. This method aims to identify the cash inflows and outflows for each of the project's main activities (operating, investing, and financing) and determine the net cash flow....



Third: Different Methods for Preparing the Cash Flow Statement.

Statement	Partial	Whole
First: Cash flows from operating activities:		
1-Cash inflows:		
- Cash collections from customers.	×	
-Returns or cash receipts from investments.	×	
-Other cash inflows from operating activities.	×	
2-Cash outflows:		
- Payments to suppliers.	(×)	
- Wages and salaries paid to employees.	(×)	
- Paid taxes and duties.	(×)	
- Other cash expenses for operations.	(×)	
Net cash flow from operating activities.		××



Third: Different Methods for Preparing the Cash Flow Statement.

Second: Cash flows from investing activities:

1-Cash inflows:

- Sale of fixed assets.

X

- Sale of financial securities.

X

2-Cash outflows:

- Purchase of fixed assets.

(X)

- Purchase of financial securities.

(X)

Net cash flow from investing activities.

XX



Third: Different Methods for Preparing the Cash Flow Statement.

Third: Cash flows from financing activities:		
1-Cash inflows:		
- Borrowings.	x	
- Issuance of shares.	x	
2-Cash outflows:		
- Loan repayments.	(x)	
- Dividend payments to shareholders.	(x)	
- Share buybacks.	(x)	
Net cash flow from financing activities.		xx
Net increase (decrease) in cash:		xx
+ Cash balance at the beginning of the period:		x
Cash balance at the end of the period.		xxx



Third: Different Methods for Preparing the Cash Flow Statement.

2-Indirect Method: This method involves adjusting the accounting net income, as it reflects the final result of operating activities during a certain period. Adjustments include adding items that do not represent cash outflows, such as depreciation and losses from the sale of assets..



Third: Different Methods for Preparing the Cash Flow Statement.

excluding gains from the sale of investments and increases in current assets. For the purposes of preparing financial feasibility studies and evaluating projects, the cash flow statement will be discussed using the indirect method from the perspective of the Six Blocks method in the following section.



Presentation activity.....

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





The Next Lecture

Con.. Chapter 3

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