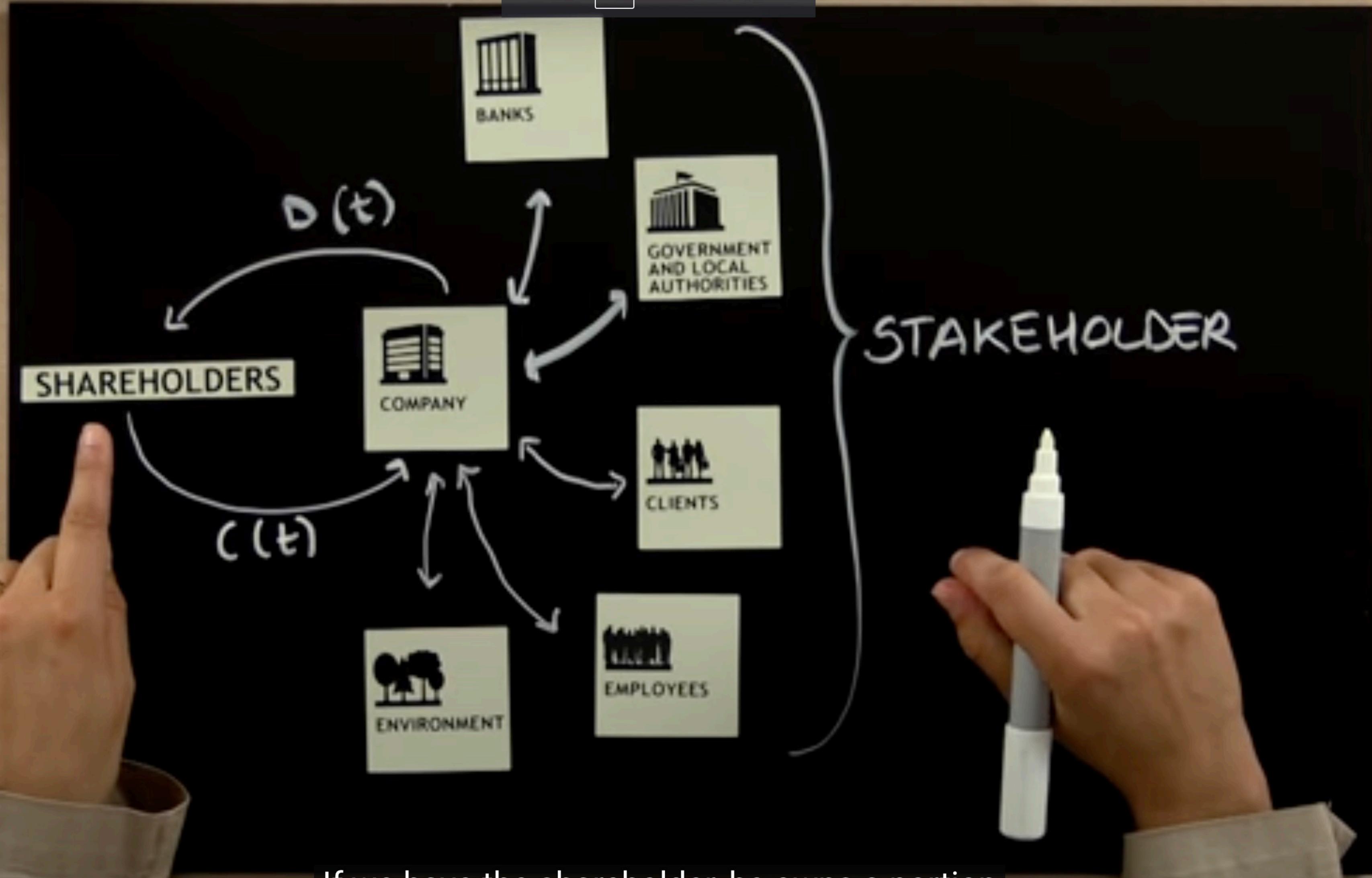
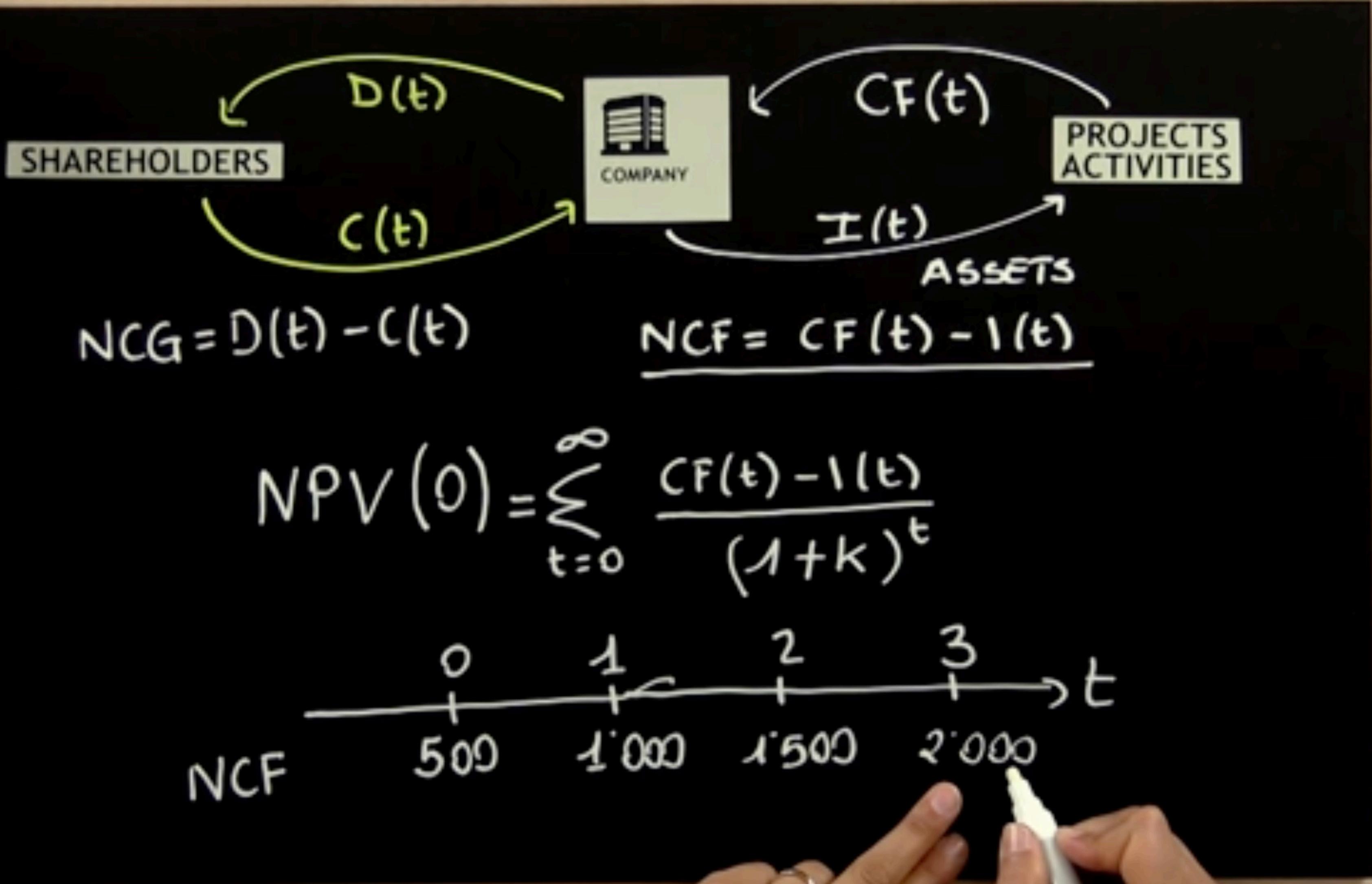


If we have the shareholder, he owns a portion of the company because he has the share, so,



If we have the shareholder, he owns a portion of the company because he has the share, so,



the different year because of the time effect.

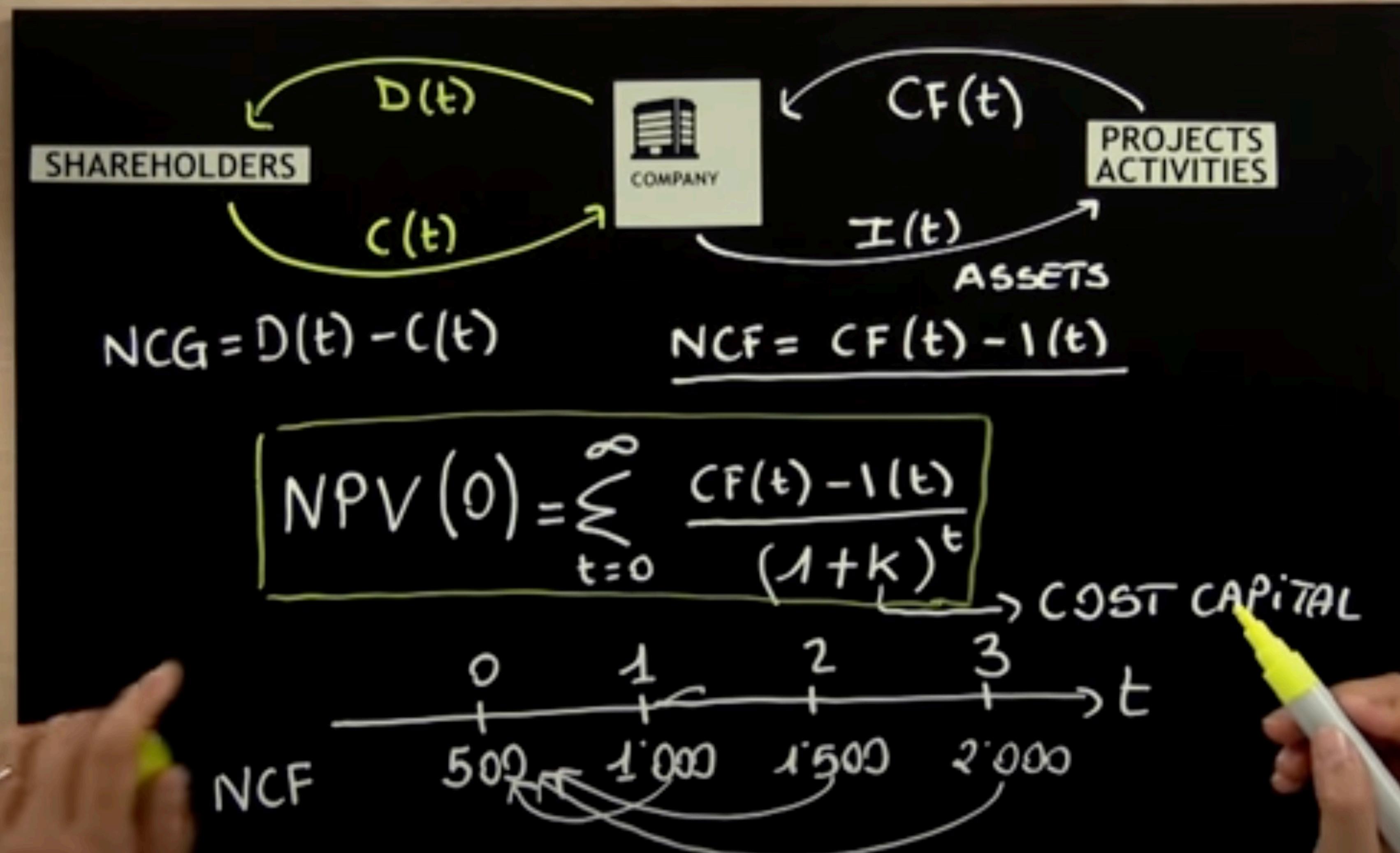
If

RISK-FREE RATE (I)

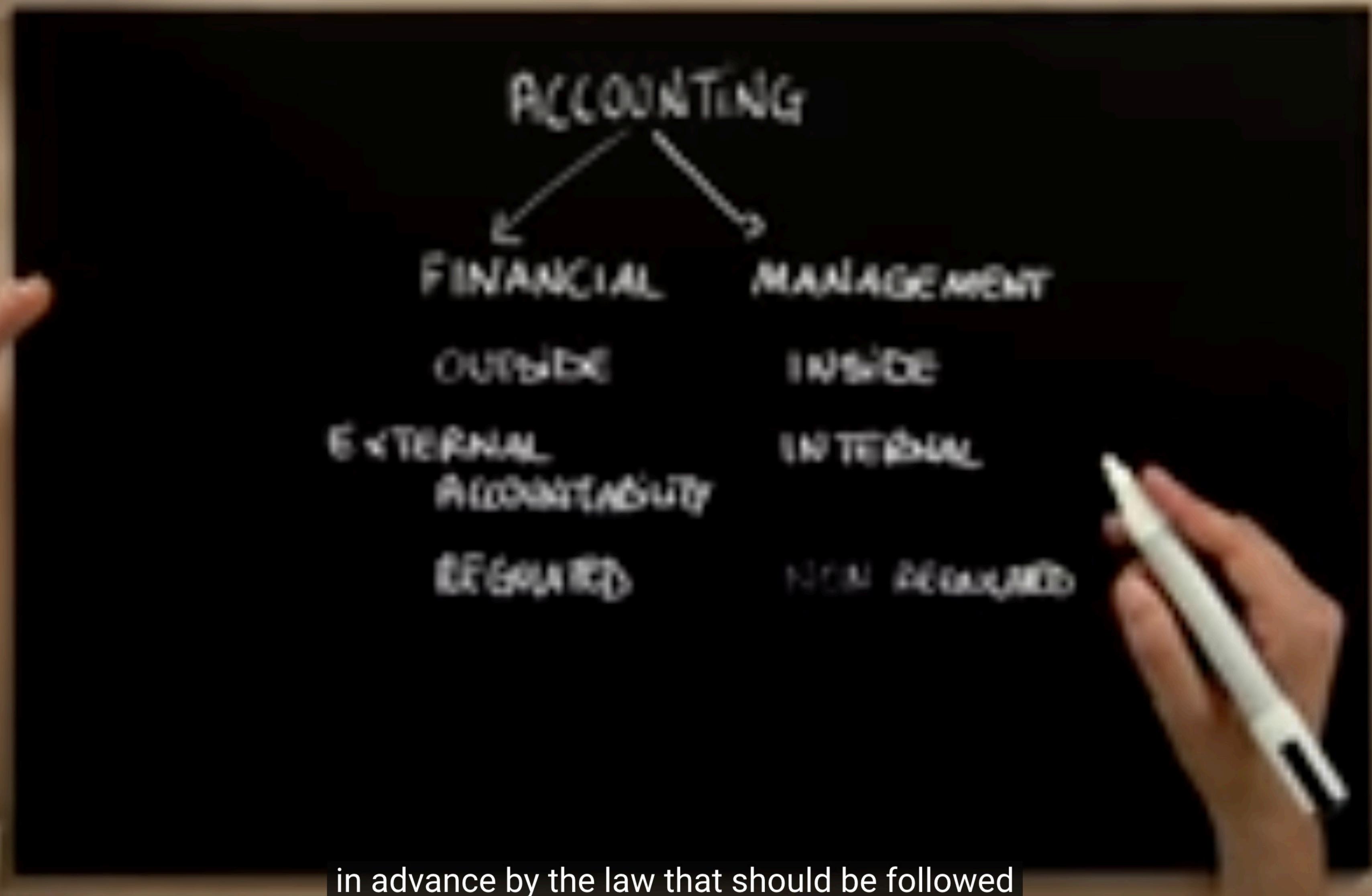
INFLATION (F)

COMPANY SPECIFIC RISK RATE (R)

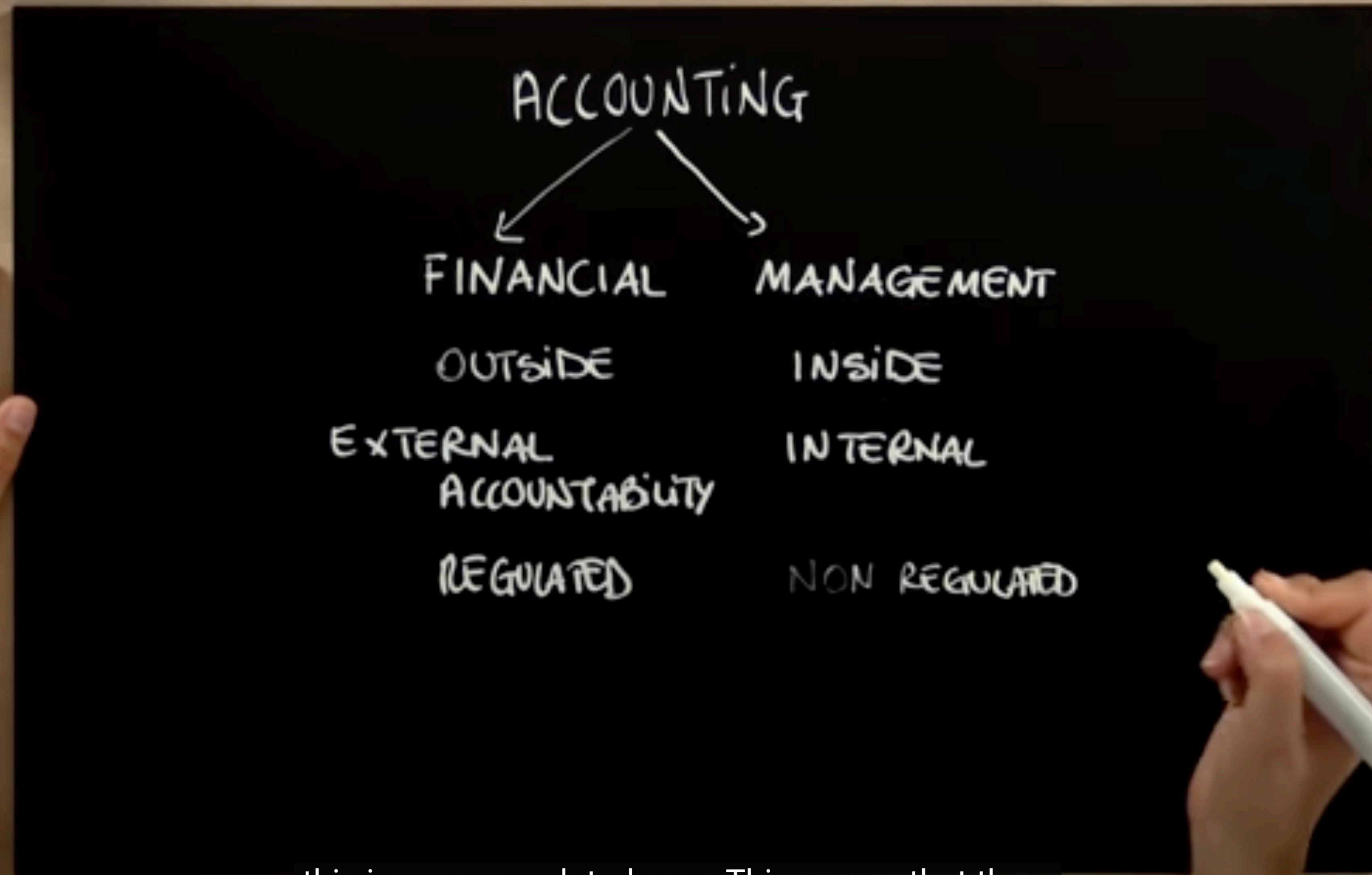




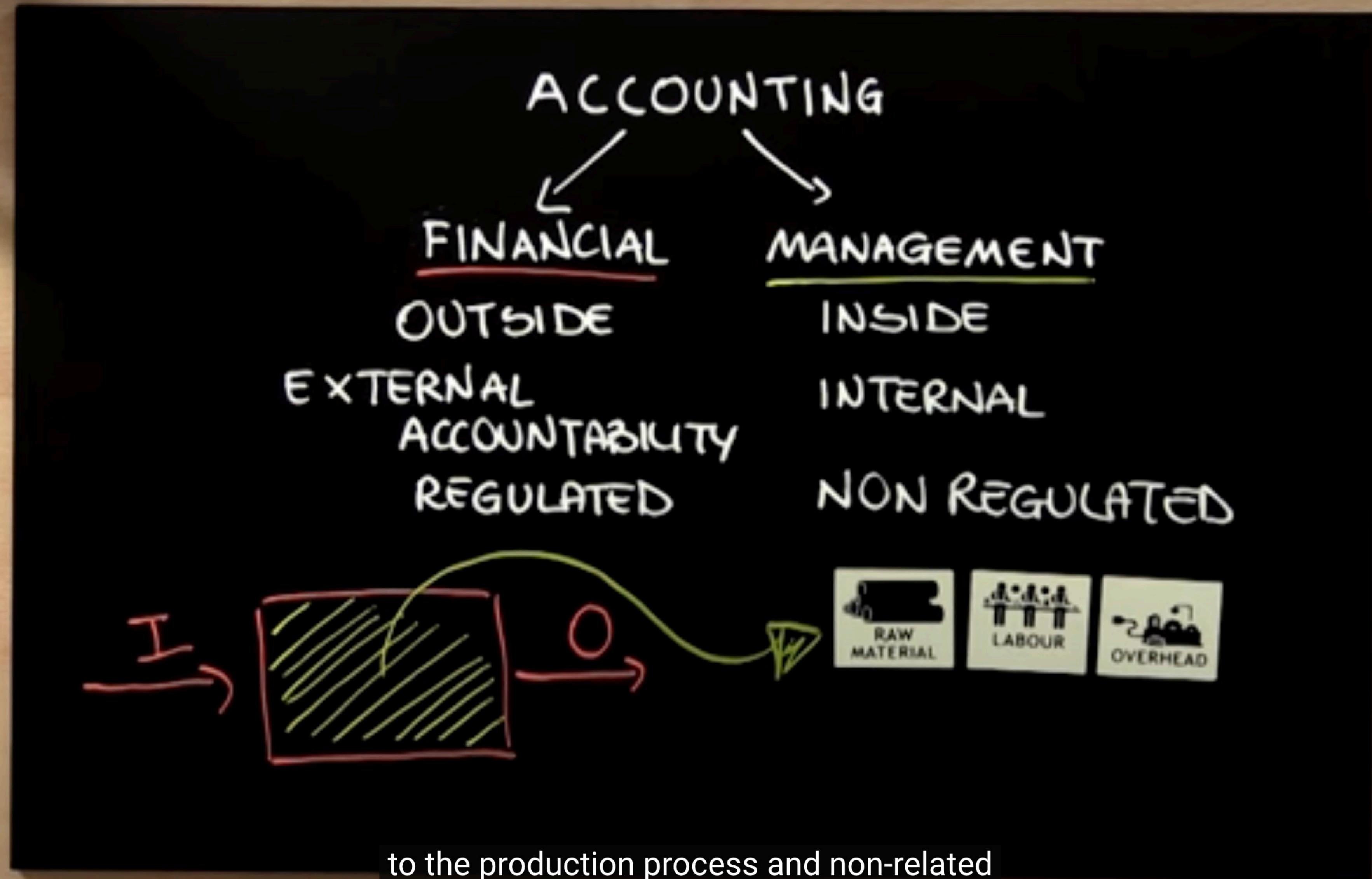
The objective of a profit company is to maximize this Net Present Value.



in advance by the law that should be followed
by the organization.



this is a non-regulated area. This means that there are not predefined rules, that are defined



| | FINANCIAL ACCOUNTING | MANAGEMENT ACCOUNTING |
|---------------------|----------------------|-----------------------|
| DECISION MAKER | OUTSIDE | INSIDE |
| NATURE REPORTS | MANDATED | VOLUNTARY |
| LEVEL DETAIL | LOW | HIGH |
| REPORTING INTERVALS | ANNUAL, QUARTERLY | DAILY, WEEKLY |
| TIME HORIZON | PAST | FUTURE |

This means that the idea is like to look at cost and resource information in order

IDENTIFYING CLASSIFYING RECORDING

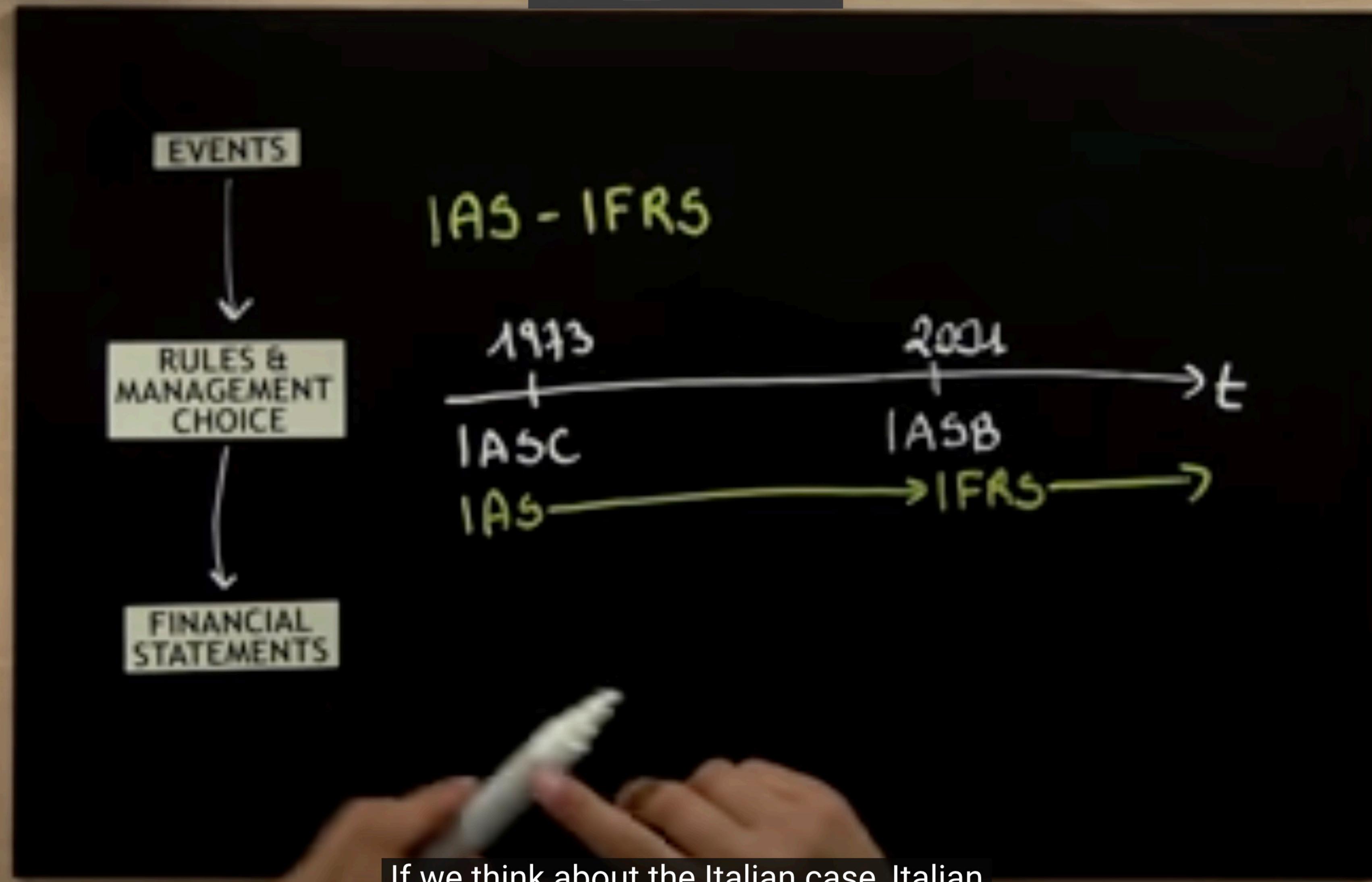


events, classify the events, record them and provide information in financial statements



**RELEVANT
RELIABLE
COMPARABILITY
CONSISTENT**

This means that it should be possible to compare financial statement of the same company overtime



If we think about the Italian case, Italian companies were required by the law to introduce

EVENTS



RULES &
MANAGEMENT
CHOICE



FINANCIAL
STATEMENTS

IAS - IFRS \neq GAAP

1973

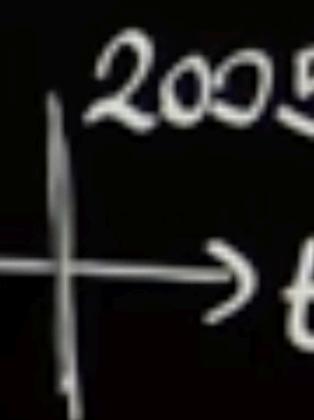
IASC
IAS

2004

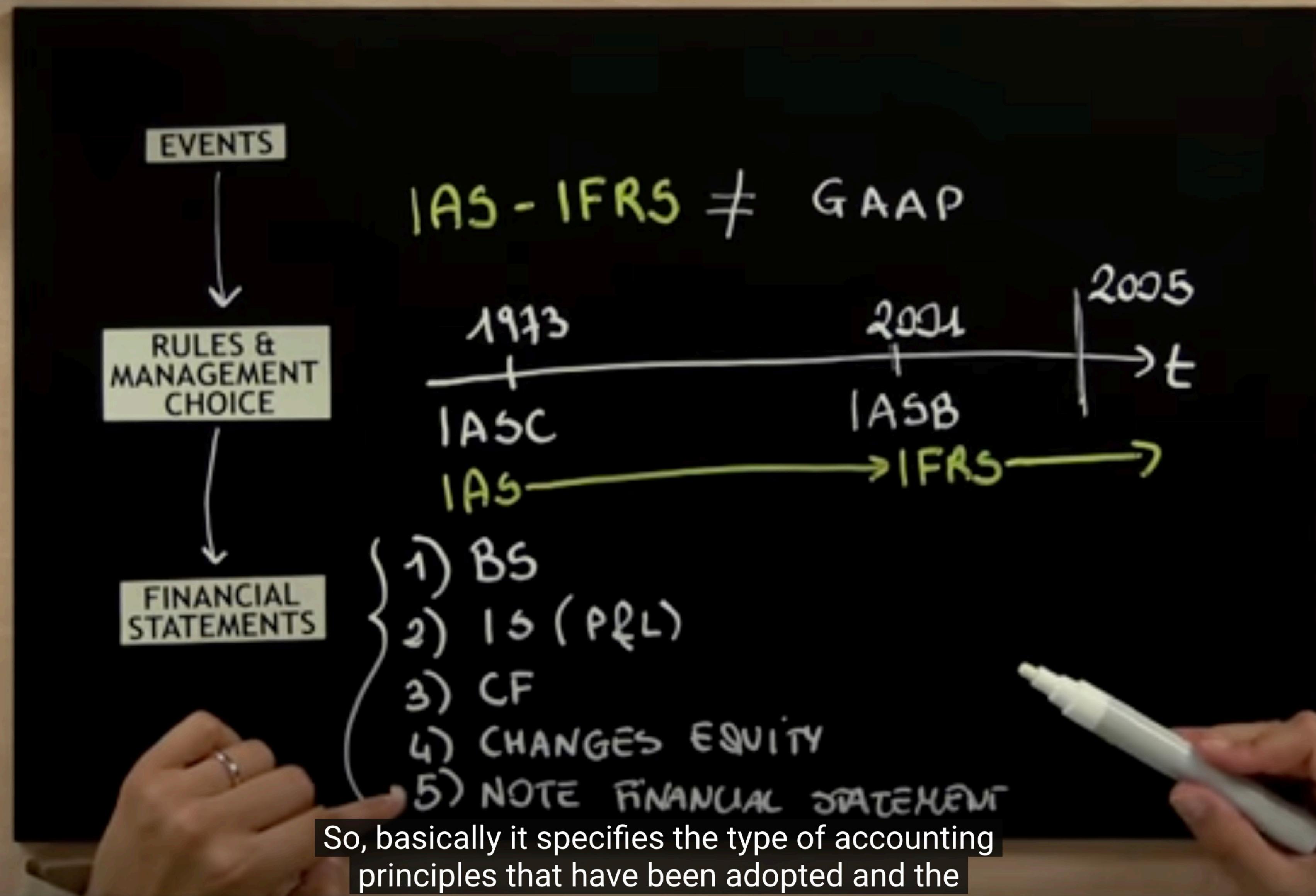
IASB

2005

IFRS



The last point is about the type of financial statement because so far we have discussed





and expense while if we're adopting a cash logic, we can identify the net cash of the

SELLING (2013) : 40 MILL € $\xrightarrow{\quad}$ 30 MILL € (2013)
PRODUCTS $\xleftarrow{\quad}$ 10 MILL € (2014)

PURCHASING (2013): 25 MILL €

RAW MATERIAL ? 2013

| CASH (2013) | ACCRUAL (2013) |
|-------------|----------------|
| CASH IN 30 | REVENUE 40 |
| CASH OUT 25 | EXPENSES 25 |
| <hr/> | <hr/> |
| CASH +5 | PROFIT +15 |

If we adopt a cash logic, we can see that
the company, at the end of the year has a

ACCRUAL



POLITECNICO DI MILANO

income statement and the statement of changes
in equity.

ACCRUAL



BALANCE
SHEET



INCOME
STATEMENT



STATEMENT
OF CHANGES
IN EQUITY

CASH



CASH FLOW
STATEMENT



While the cash logic is adopted in the cash flow statement.



BS

ASSETS

EQUITY & LIABILITIES

↳ NON CURRENT

- * TANGIBLE
- * INTANGIBLE
- * FINANCIAL

↳ CURRENT

- * CASH
- * TRADE RECEIVABLES
- * INVENTORIES

going to classify the inventories within the category of current assets. So, basically,

BS

ASSETS

EQUITY & LIABILITIES

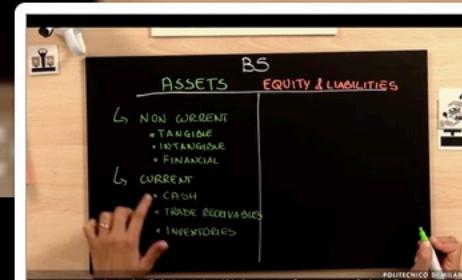
↳ NON CURRENT

- * TANGIBLE
- * INTANGIBLE
- * FINANCIAL

↳ CURRENT

- * CASH
- * TRADE RECEIVABLES
- * INVENTORIES

that's the main structure of the assets section. We are going to list the resources



BS

ASSETS

EQUITY & LIABILITIES

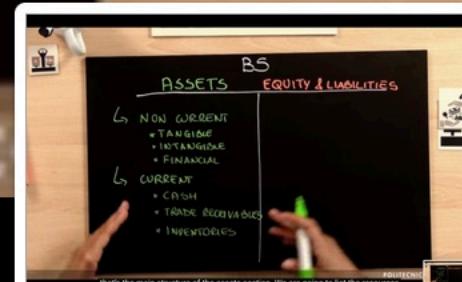
↳ NON CURRENT

- * TANGIBLE
- * INTANGIBLE
- * FINANCIAL

↳ CURRENT

- * CASH
- * TRADE RECEIVABLES
- * INVENTORIES

that's the main structure of the assets section. We are going to list the resources



BS

ASSETS

↳ NON CURRENT

- * TANGIBLE
- * INTANGIBLE
- * FINANCIAL

↳ CURRENT

- * CASH
- * TRADE RECEIVABLES
- * INVENTORIES

EQUITY & LIABILITIES

↳ SHAREHOLDERS' EQUITY

↳ THIRD PART LIABILITIES

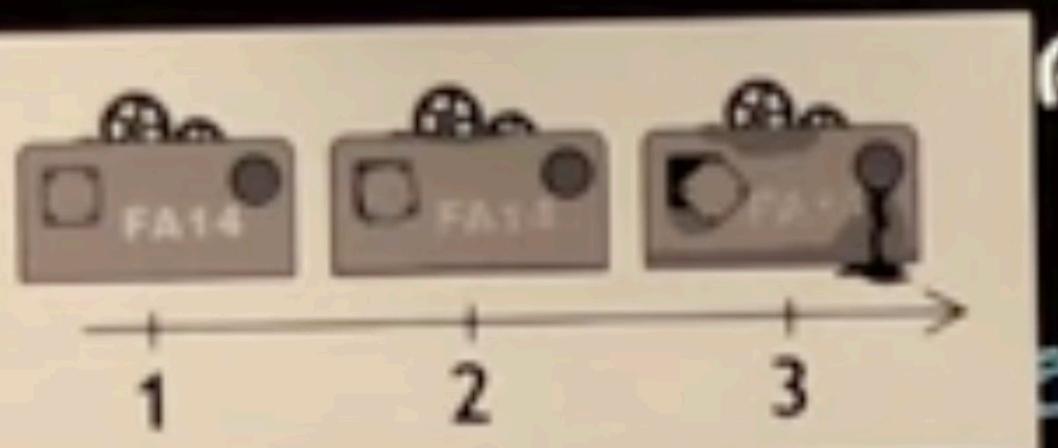
↳ NON CURRENT

↳ CURRENT

Otherwise they are listed as current liabilities. So, that's basically

PPE

INITIAL VALUE : COST



$$\frac{\text{COST} - \sum \text{DEPRECIATION}}{\text{PPE (BS)}}$$

$$D = \frac{\text{COST}}{\text{USEFUL LIFE}}$$

REMENT SUBSEQUENT INITIAL
RECOGNITION

REVALUATION

PPE (BS) = FAIR VALUE

$\Delta = \text{FAIR VALUE} - \text{BOOK VALUE}$

$\Delta > 0$

(BS) = REVALUATION RESERVE

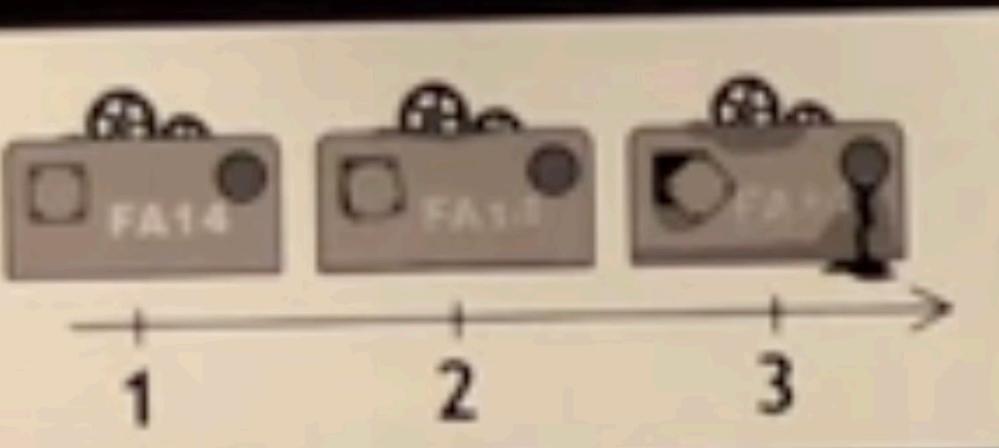
$\Delta < 0$

(I) = EXPENSE

as an expense. As an expense for the portion
that exits the amount which is recognized

PPE

INITIAL VALUE : COST

REMENT SUBSEQUENT INITIAL
RECOGNITION

$$\frac{\text{COST} - \sum \text{DEPRECIATION}}{\text{PPE (BS)}}$$

$$D = \frac{\text{COST}}{\text{FAIR VALUE}} / \text{USEFUL LIFE}$$

REVALUATION

$$\text{PPE (BS)} = \text{FAIR VALUE}$$

$$\Delta = \text{FAIR VALUE} - \text{BOOK VALUE}$$

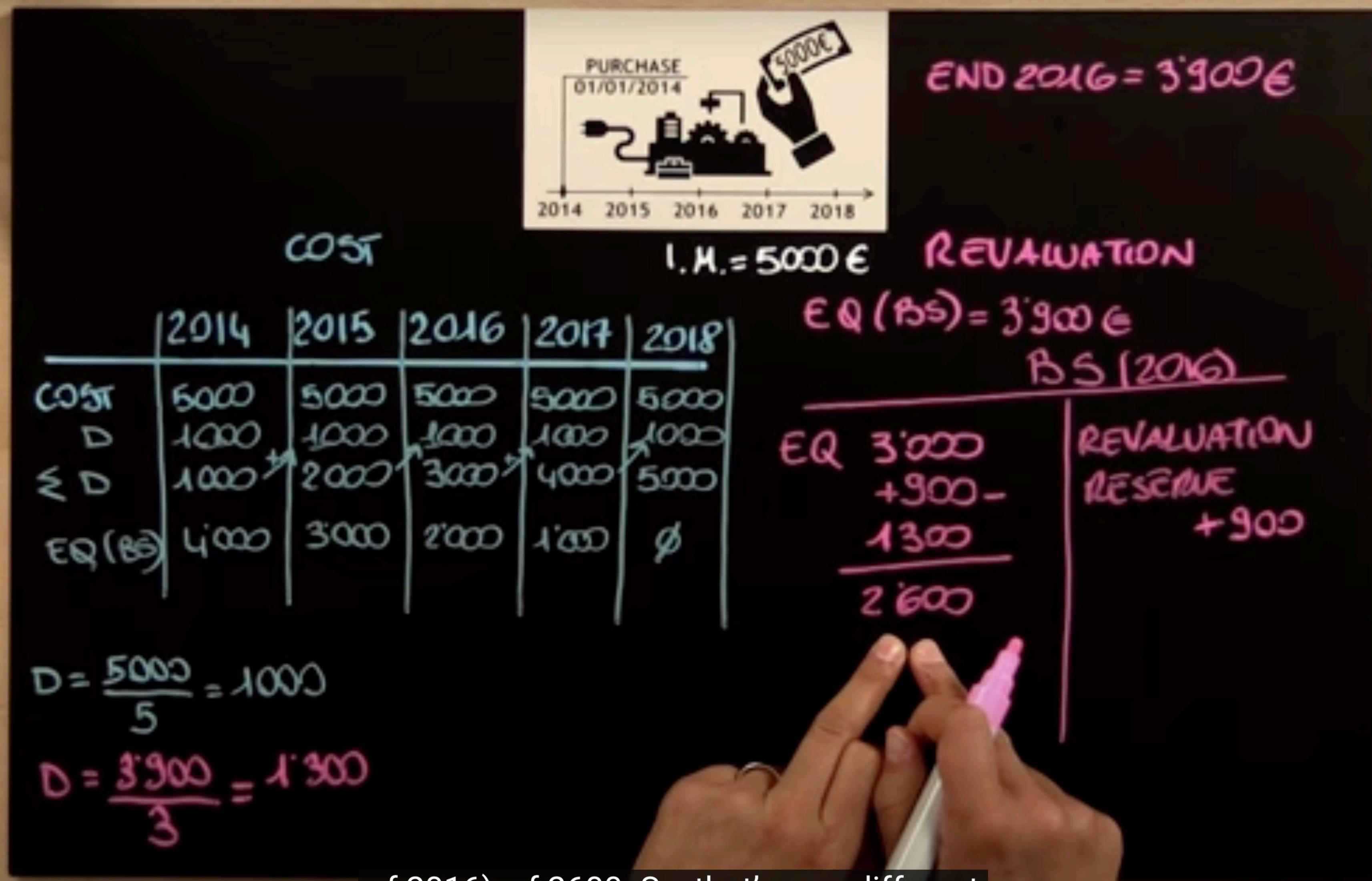
$$\Delta > 0$$

$$(BS) = \frac{\text{REVALUATION}}{\text{RESERVE}}$$

$$\Delta < 0$$

$$(I) = \text{EXPENSE}$$

but by considering the fair value. And again, the depreciation of the year enters the income statement.



of 2016), of 2600. So, that's very different because if we look we have 2600 by using the



COST

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|
| Cost | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4000 | 3000 | 2000 | 1000 | 0 |

I.M. = 5000 € REVALUATION

EQ (BS) = 3900 €

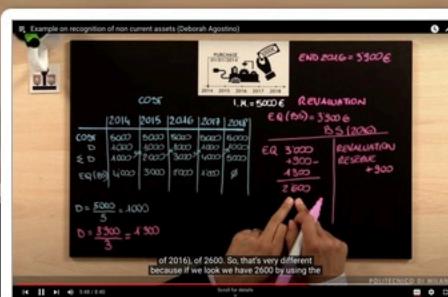
BS (2016)

| | |
|---------|-------------|
| EQ 3000 | REVALUATION |
| +900- | RESERVE |
| 1300 | +900 |
| 2600 | |

$D = \frac{5000}{5} = 1000$

$D = \frac{3900}{3} = 1300$

revaluation approach and we have 2000 by using the cost model. This means that we have taken





PURCHASE
01/01/2014

END 2016 = 3'900€

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|
| COST | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4000 | 3000 | 2000 | 1000 | 0 |

$D = \frac{5000}{5} = 1000$

$D = \frac{3900}{3} = 1300$

I.M. = 5000 € REVALUATION

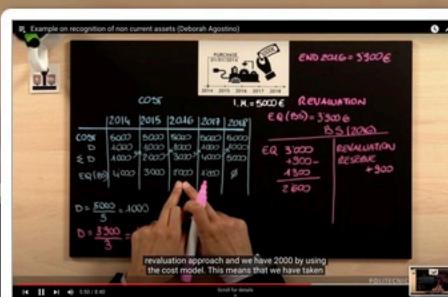
EQ (BS) = 3900 €

BS (2016)

REVALUATION RESERVE +900

EQ 3000 +900 - 1300 2600

of 2016), of 2600. So, that's very different because if we look we have 2600 by using the





PURCHASE
01/01/2014

COST

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|
| Cost | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4000 | 3000 | 2000 | 1000 | 0 |

I.M. = 5000 € **REVALUATION**

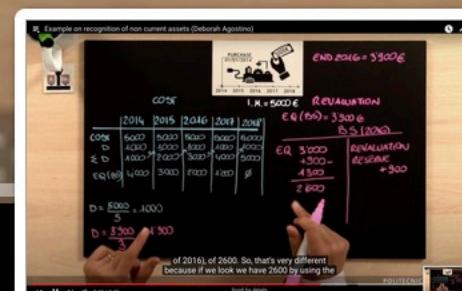
EQ (BS) = 3900 € **BS (2016)**

REVALUATION RESERVE +900

D = $\frac{5000}{5} = 1000$

D = $\frac{3900}{3} = 1300$

of 2016), of 2600. So, that's very different because if we look we have 2600 by using the





PURCHASE
01/01/2014

COST

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|
| Cost | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4000 | 3000 | 2000 | 1000 | ∅ |

I.M. = 5000 € REVALUATION

EQ (BS) = 3900 €

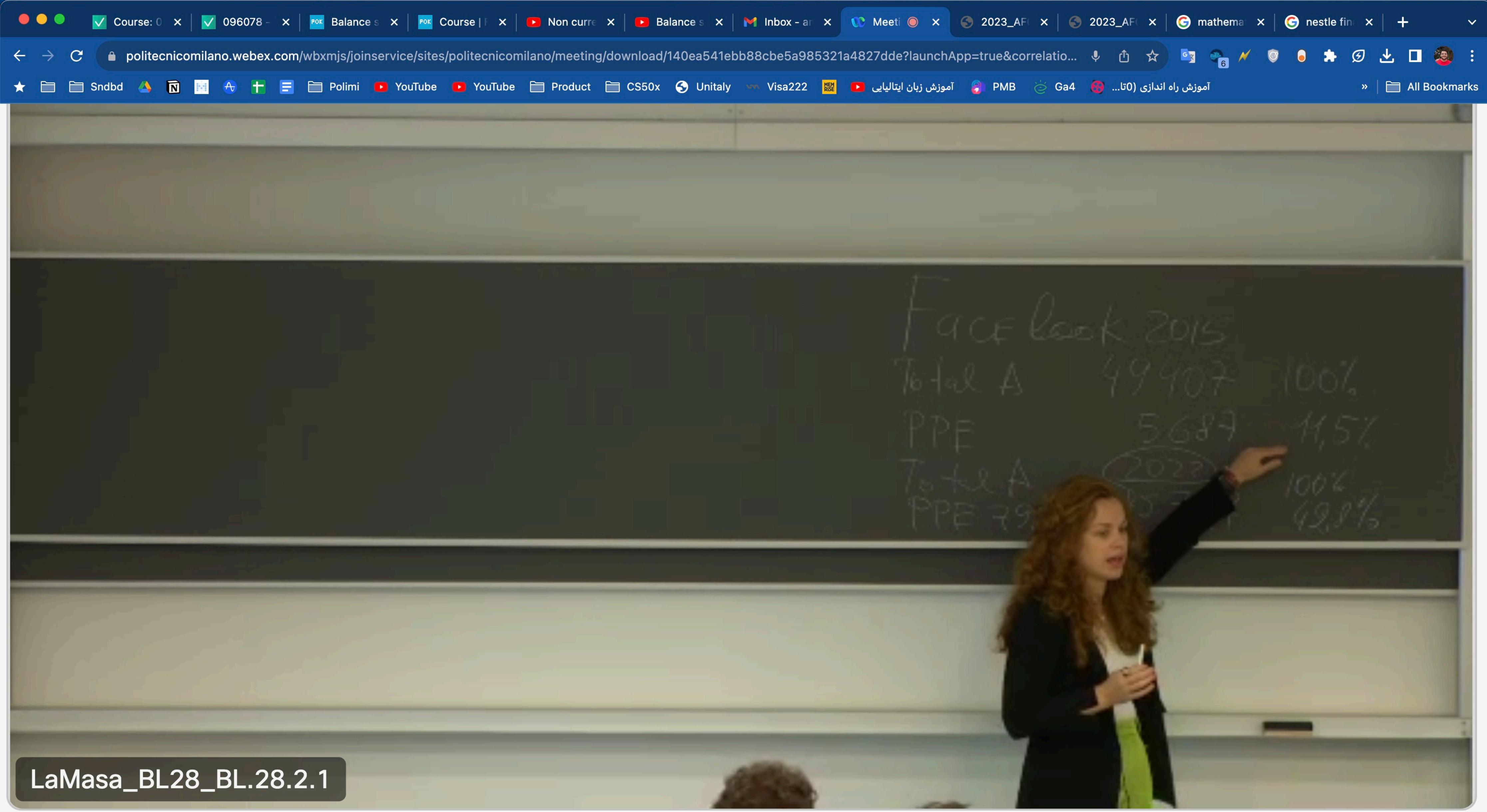
BS (2016) / 2017

| EQ | REVALUATION |
|--------------|-------------|
| 3000 | RESERVE |
| +900- | +900 |
| <u>1300</u> | <u>-900</u> |
| <u>2600-</u> | |
| 1500- | |
| <u>550</u> | |
| <u>550</u> | |

$D = \frac{5000}{5} = 1000$

$D = \frac{3900}{3} = 1300$ $\frac{1100}{2} = 550$

what is defined as impairment test. The impairment test is applied both in the case of revaluation model



LaMasa_BL28_BL.28.2.1

Meeting Info

02:15:38

add you to the operations. So let's take out everything if you look for the previous slide. Sorry, yeah, this one, sorry, last take out everything.
LaMasa_BL28_BL.28.2.1: Investment, because this is not our normal operations. Okay, so here you can take two levels, two levels, all the analysis you can have the broader one or you can have more specific one and it is normal okay. This is the decision.
LaMasa_BL28_BL.28.2.1: Are done by the financial analyst and you will see

Viewing Yulia Sidorova's screen

- 100% +

4. Balance Sheet reclassification: net working capital

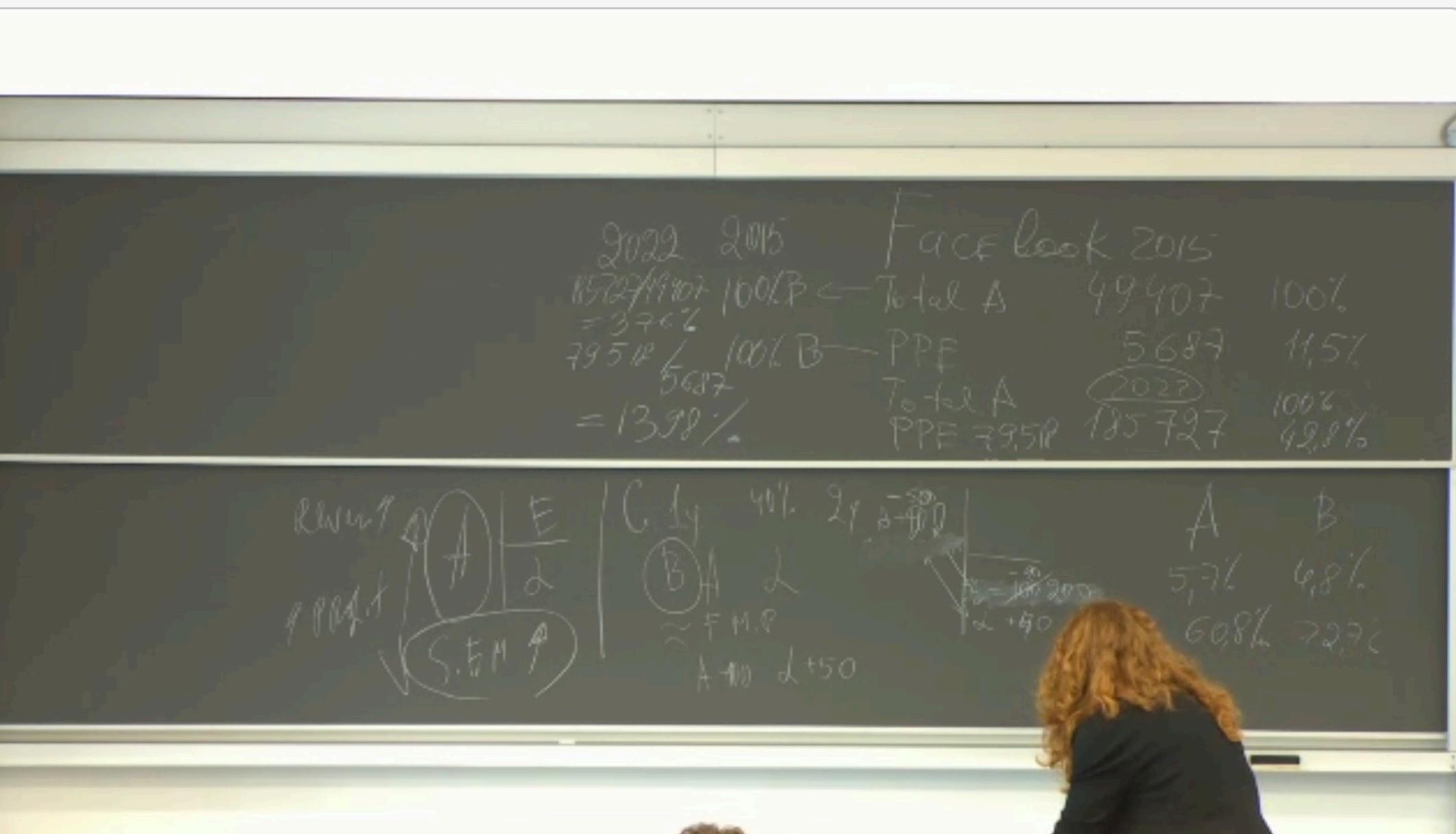
In practice there are different labels and formulas that are used with reference to Net Working Capital = *Current assets – Current liabilities*

| Assets | | Note | 12/31/2018 | 12/31/2017 |
|---|------|------------------|------------------|------------|
| Current assets | | | | |
| Cash and cash equivalents | 6.1 | 295,982 | 246,893 | |
| Trade receivables | 6.2 | 419,306 | 428,458 | |
| Tax credits | 6.3 | 19,602 | 28,541 | |
| Other receivables due from parent company | 6.4 | 2,646 | 16,662 | |
| Other assets | 6.5 | 111,236 | 94,085 | |
| Inventories | 6.6 | 302,742 | 282,717 | |
| Derivative financial instruments | 6.20 | 9,624 | 13,057 | |
| Total current assets | | 1,161,138 | 1,110,413 | |

| Liabilities and equity | | Note | 12/31/2018 | 12/31/2017 |
|--|------|------------------|------------------|------------|
| Current liabilities | | | | |
| Trade payables | 6.13 | 744,314 | 752,189 | |
| Borrowings | 6.14 | 26,073 | 84,954 | |
| Derivative financial instruments | 6.20 | 188 | 6,011 | |
| Retirement benefit obligations | 6.15 | 11,305 | 11,234 | |
| Current income tax liabilities | 6.16 | 3,898 | 5,297 | |
| Other liabilities | 6.17 | 177,732 | 170,694 | |
| Provisions for other liabilities and charges | 6.18 | 57,723 | 58,689 | |
| Total current liabilities | | 1,021,233 | 1,089,068 | |

POLITECNICO MILANO 1863

15



Unmute

Start video

Share

...

X

Participants

Chat

Meeting Info

02:15:39

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Viewing Yulia Sidorova's screen

- 100% +

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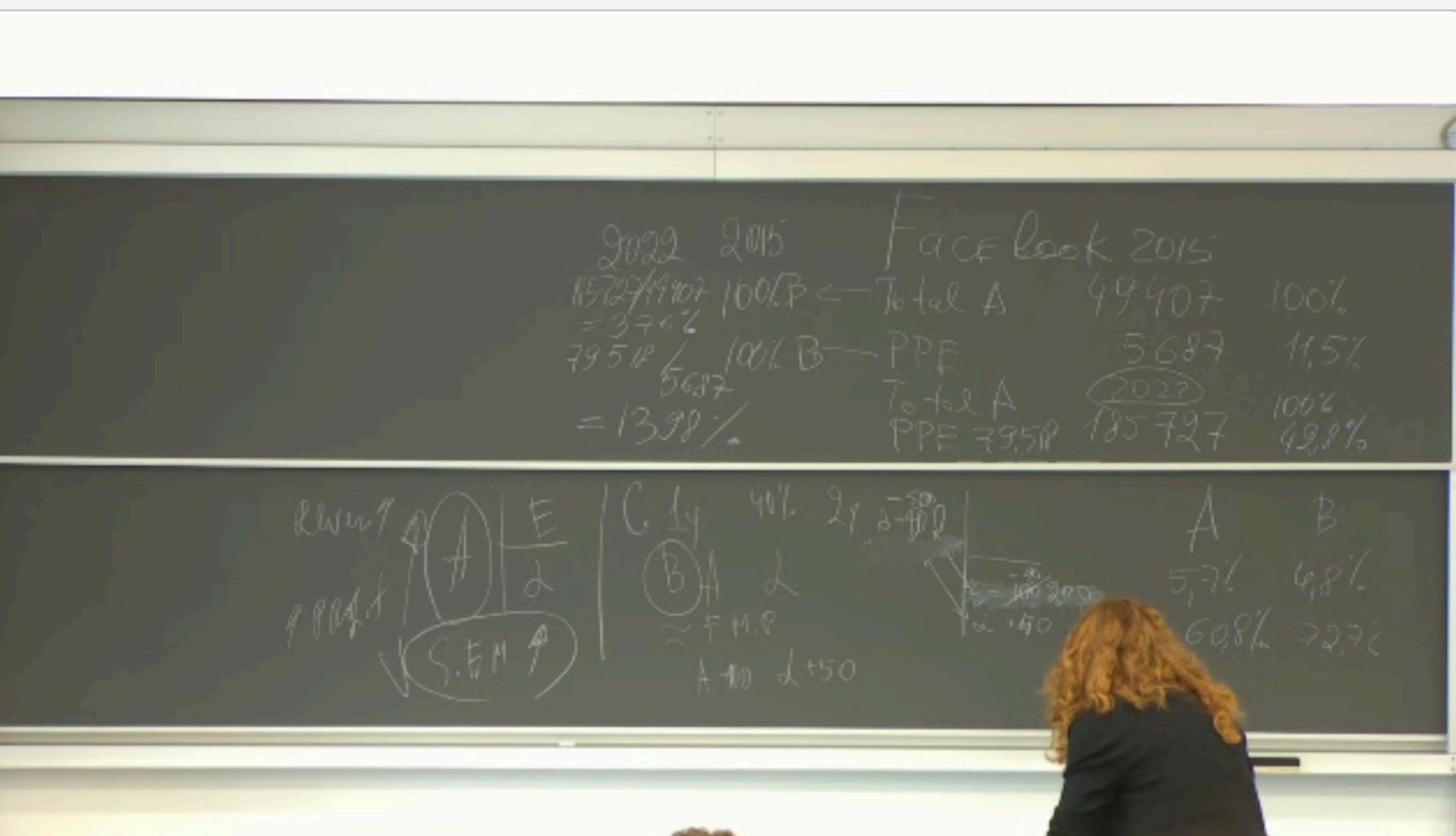
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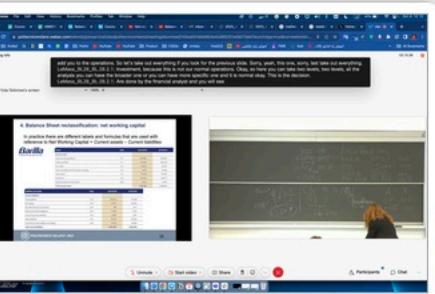
POLITECNICO MILANO 1863

15



Unmute Start video Share ... X

Participants





PURCHASE
01/01/2014

2014 2015 2016 2017 2018

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|------|------|------|------|------|
| Cost | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4000 | 3000 | 2000 | 1000 | ∅ |

$D = \frac{5000}{5} = 1000$

$D = \frac{3900}{3} = 1300$

COST

I.M. = 5000 € **REVALUATION**

$EQ(BS) = 3900 €$

BS (2016)

EQ 3000
+900-
1300
2600-
1500

REVALUATION
RESERVE
+900
-900

in the income statement. Finally, what we need to do is, again, to calculate another



PURCHASE
01/01/2014

END 2016 = 3.900€
END 2017 = 1.100€
600€ (15)

COST

I.M. = 5000 € **REVALUATION**

EQ (BS) = 3.900 €

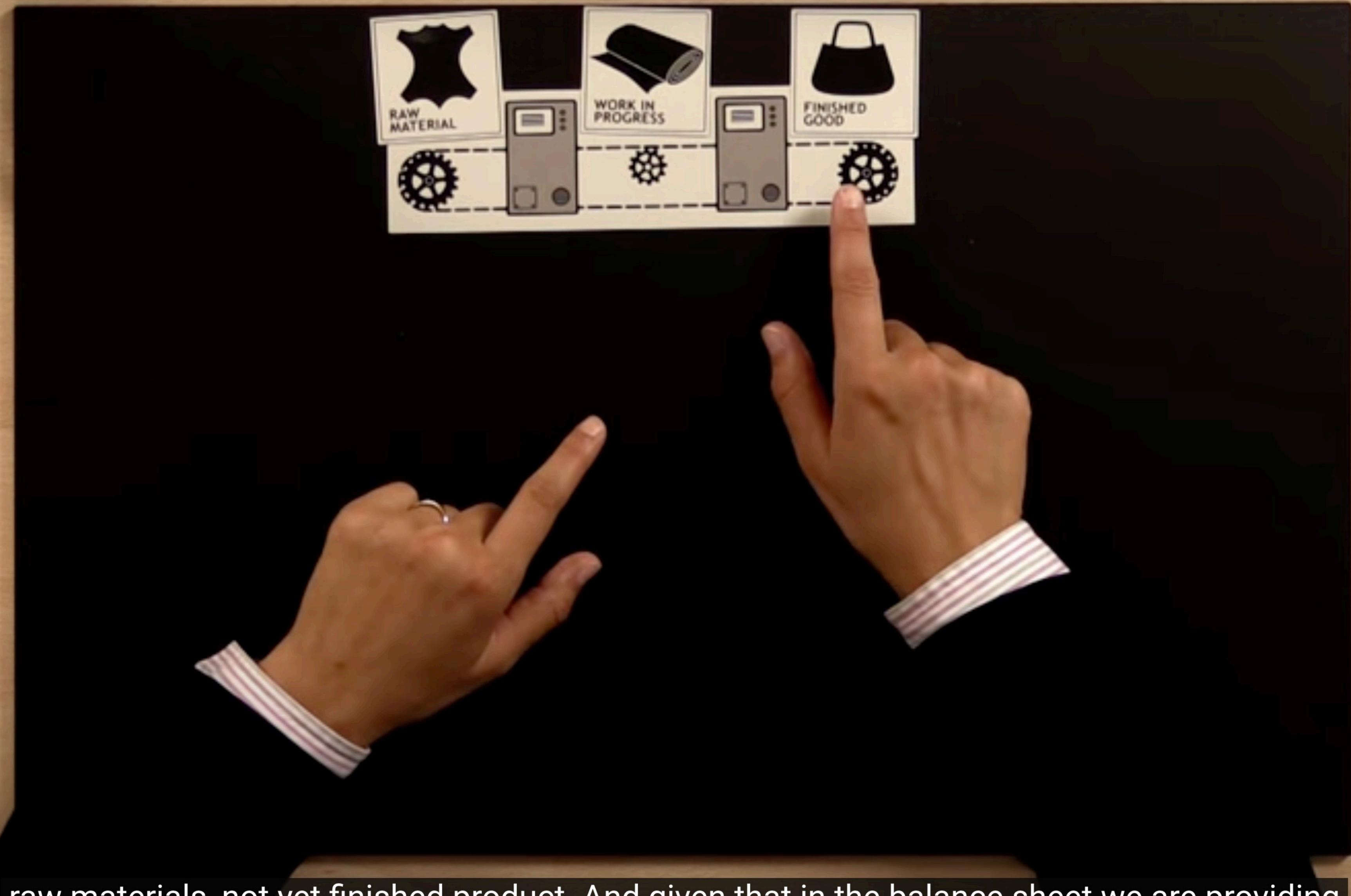
BS (2016) / 2017

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------|-------|------|------|-------|------|
| Cost | 5000 | 5000 | 5000 | 5000 | 5000 |
| D | 1000 | 1000 | 1000 | 1000 | 1000 |
| ≤ D | 1000 | 2000 | 3000 | 4000 | 5000 |
| EQ (BS) | 4.000 | 3000 | 2000 | 1.000 | ∅ |

$D = \frac{5000}{5} = 1000$

$D = \frac{3.900}{3} = 1.300$ / $\frac{1.100}{2} = 550$

what is defined as impairment test. The impairment test is applied both in the case of revaluation model



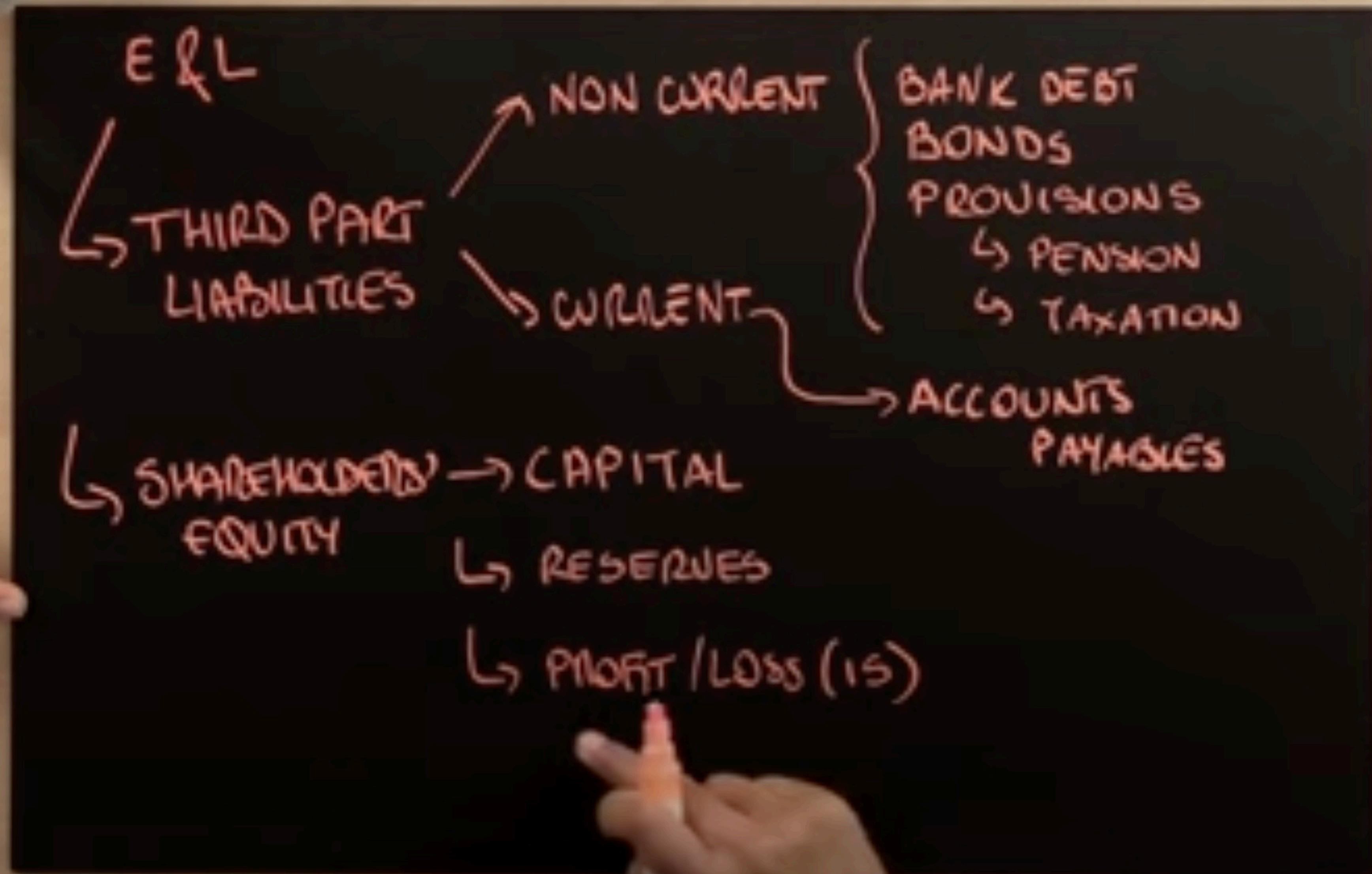
raw materials, not yet finished product. And given that in the balance sheet we are providing

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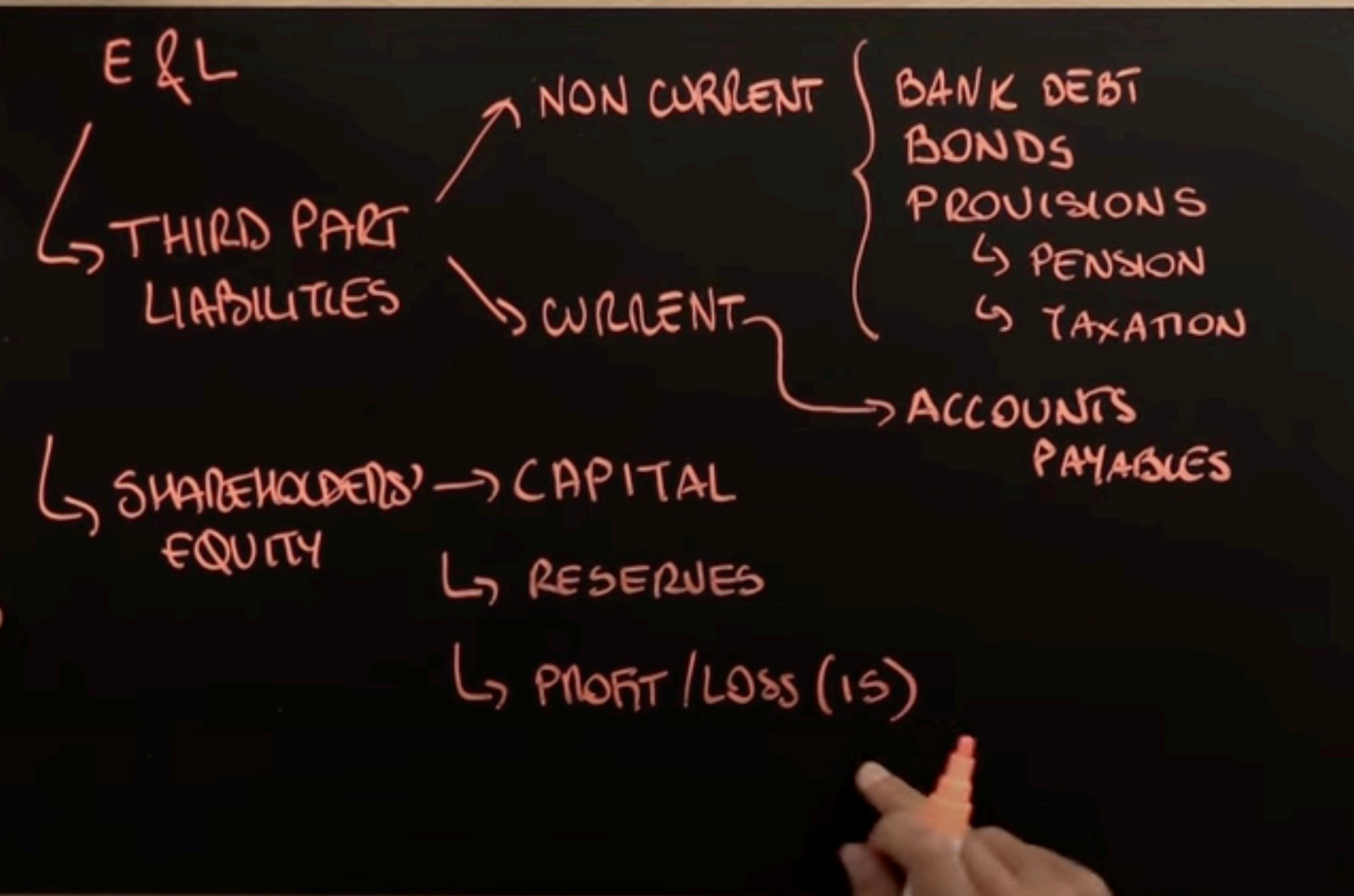


- LEGAL
- STATUTORY
- REVALUATION

are required by the shareholders; but then we can also have the revaluation reserves



So, this is the final result that is identified by the company inside the



So, this is the final result that is identified by the company inside the



IS by NATURE

Revenue
Other operating income
Changes in inventories of FP and WIP
Raw materials
Labour cost
Depreciation expense
Amortisation expense
Other operating expenses

OPERATING PROFIT

IS by FUNCTION

Revenue
Cost of sales
GROSS PROFIT
Other operating income
Selling expenses
General expenses
Administrative expenses

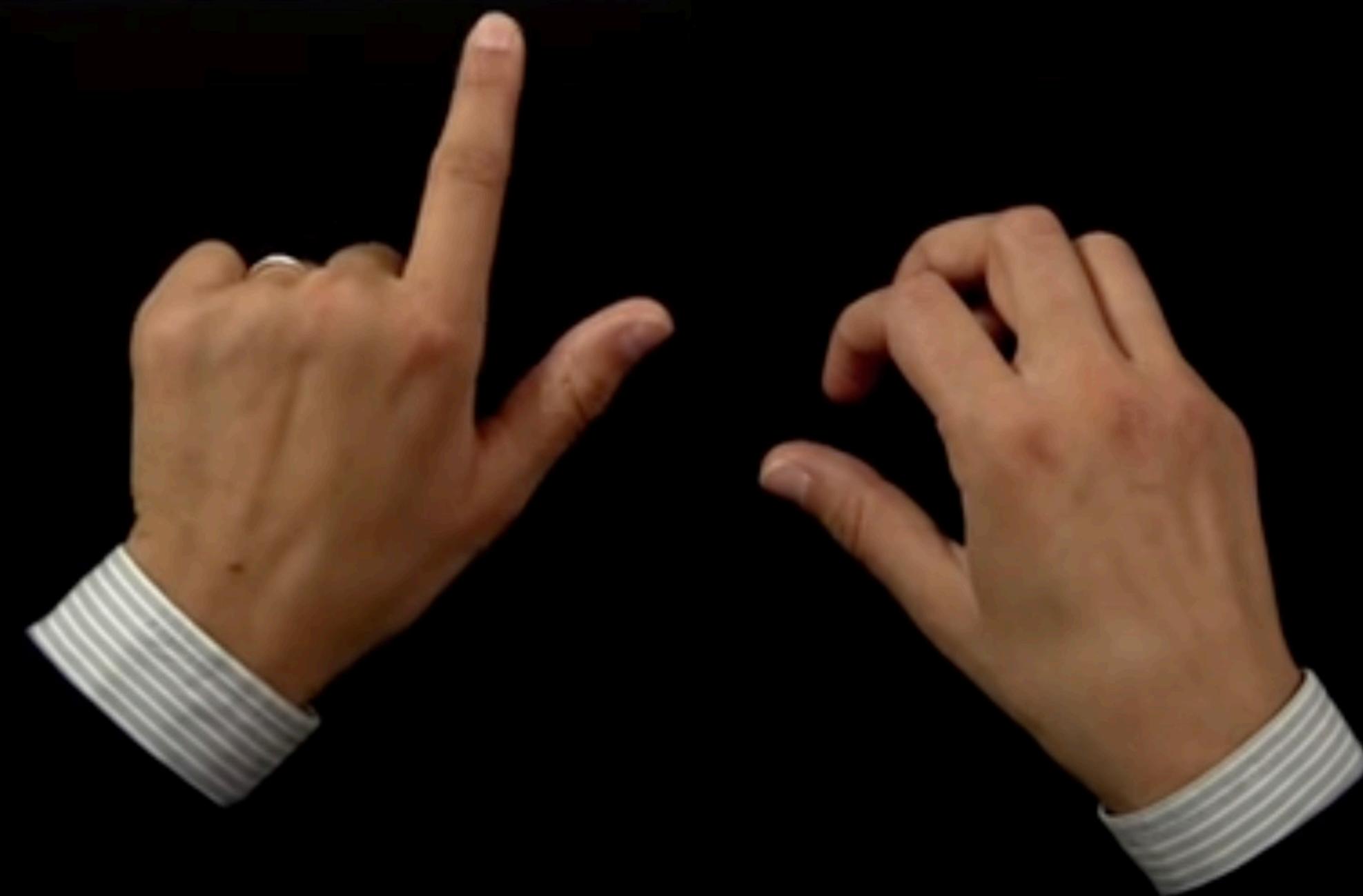
OPERATING PROFIT

The difference is in terms of how operating costs are classified. If the income statement

REVENUES
- COST OF SALES
GROSS PROFIT
+ OTHER OPERATING INCOME
- SGA EXPENSES
OPERATING PROFIT (EBIT) - NOI

+/- RESULTS FROM
DISCONTINUED OPERATIO
NET PROFIT OF THE YEAR

but it's also defined as Net Operating Income. So, all of these three terms can be

REVENUES**- COST OF SALES****GROSS PROFIT****+ OTHER OPERATING INCOME****- SGA EXPENSES****OPERATING PROFIT (EBIT) - NOI**

but it's also defined as Net Operating Income. So, all of these three terms can be

NET PROFIT OF THE YEAR

**+/- RESULTS FROM
DISCONTINUED OPERATIO**

REVENUES

- COST OF SALES

GROSS PROFIT

+ OTHER OPERATING INCOME

- SGA EXPENSES

OPERATING PROFIT (EBIT) - NOI

- FINANCE EXPENSES

+ FINANCE INCOMES

+/- RESULTS FROM
DISCONTINUED OPERATIONS

NET PROFIT OF THE YEAR

we can find the interests on the bank debt. While, if we think about financial incomes

REVENUES

- COST OF SALES

GROSS PROFIT

+ OTHER OPERATING INCOME

- SGA EXPENSES

OPERATING PROFIT (EBIT) - NOI

- FINANCE EXPENSES

+ FINANCE INCOMES

+/- RESULTS FROM
DISCONTINUED OPERAT

NET PROFIT OF THE YEAR

we can find the incomes from investments in other companies or the incomes from shares



REVENUES

- COST OF SALES

GROSS PROFIT

+ OTHER OPERATING INCOME

- SGA EXPENSES

OPERATING PROFIT (EBIT) - NOI

- FINANCE EXPENSES

+ FINANCE INCOMES

PROFIT BEFORE TAXES

+/- RESULTS FROM
DISCONTINUED OPERATIONS

NET PROFIT OF THE YEAR

REVENUES

- COST OF SALES

GROSS PROFIT

+ OTHER OPERATING INCOME

- SGA EXPENSES

OPERATING PROFIT (EBIT) - NOI

- FINANCE EXPENSES

+ FINANCE INCOMES

PROFIT BEFORE TAXES

- TAXES

PROFIT FROM THE YEAR FROM
CONTINUING OPERATIONS

+/- RESULTS FROM
DISCONTINUED OPERATIONS

NET PROFIT OF THE YEAR

REVENUES

- COST OF SALES

GROSS PROFIT

+ OTHER OPERATING INCOME

- SGA EXPENSES

OPERATING PROFIT (EBIT) - NOI

- FINANCE EXPENSES

+ FINANCE INCOMES

PROFIT BEFORE TAXES

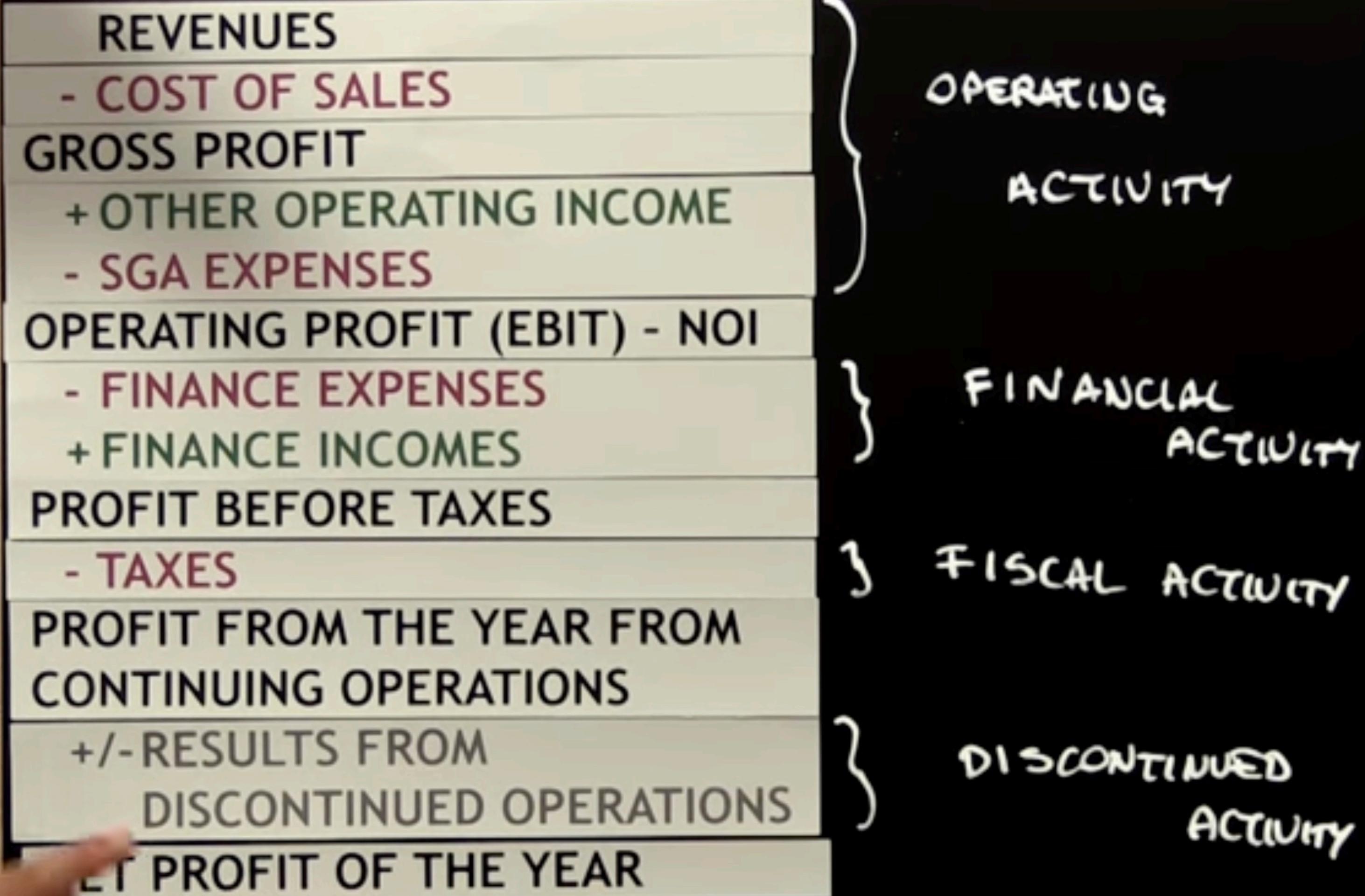
- TAXES

PROFIT FROM THE YEAR FROM
CONTINUING OPERATIONS

+/- RESULTS FROM

DISCONTINUED OPERATIONS

NET PROFIT OF THE YEAR



Of course, we do not have any particular extraordinary activity within the company, we won't have



which we have a listed company, at the end of the income statement, after the net profit,

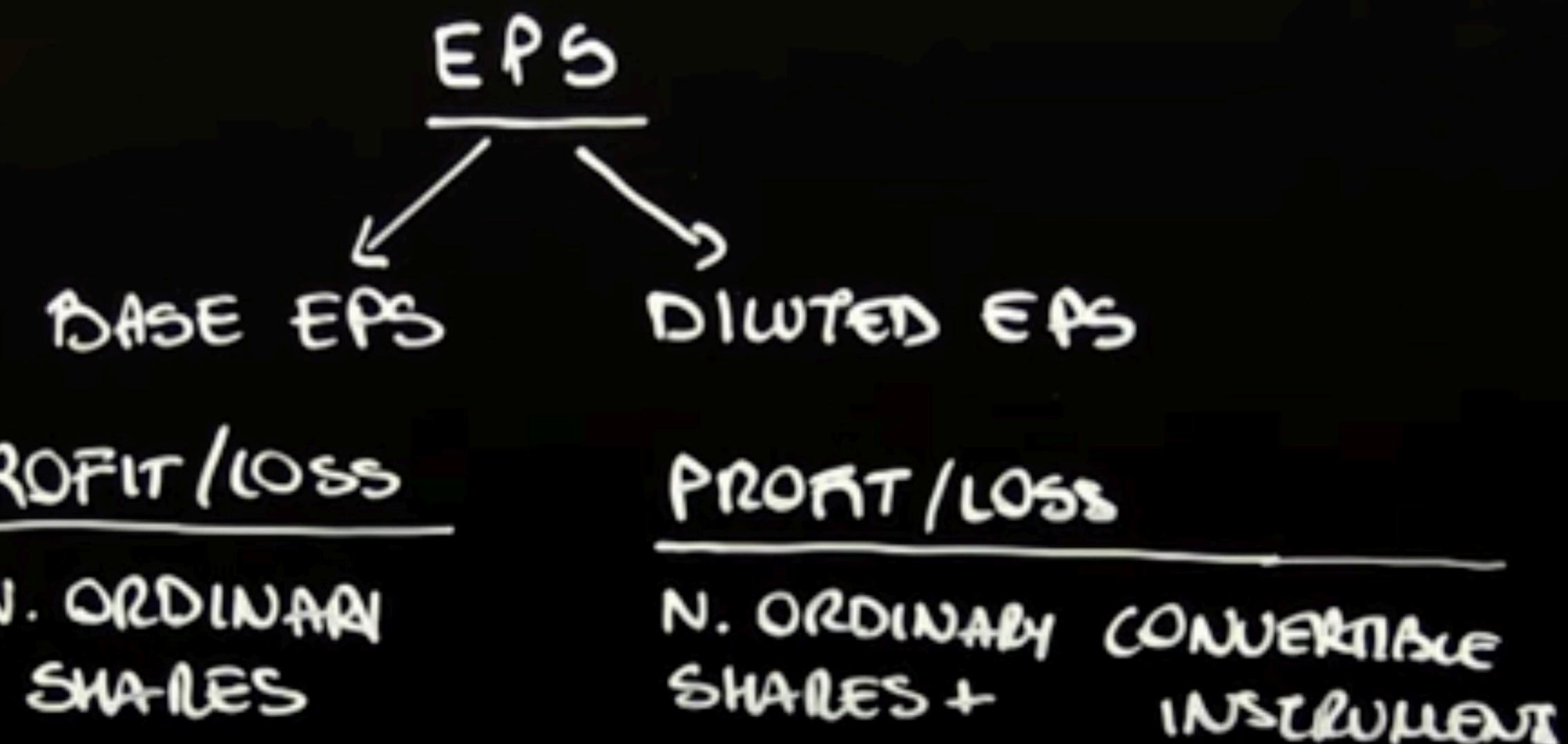
EPS



one share that is delivering to the shareholders. And the Earning Per Share can be calculated



warrants, they include stock options, they
include convertible preferred shares.



only if a company is a listed company.

REVENUES

- COST OF SALES

GROSS PROFIT



$$RM = 1000 \text{ €} \\ INV_B = 300 \text{ €}$$

$$INV_F = 500 \text{ €} -$$

$$800 \text{ €}$$

have been absorbed for production within the specific financial year, is equal to 800€.

REVENUES

- COST OF SALES \rightarrow PURCHASES + INV_B - INV_F

GROSS PROFIT



$$RM = 1000 \text{ €} \\ INV_B = 300 \text{ €}$$

$$INV_F = 500 \text{ €} - \\ \underline{800 \text{ €}}$$

considered the overall amount of resources absorbed in the financial year which is the

REVENUES

- COST OF SALES \rightarrow PURCHASES + INV_B - INV_F

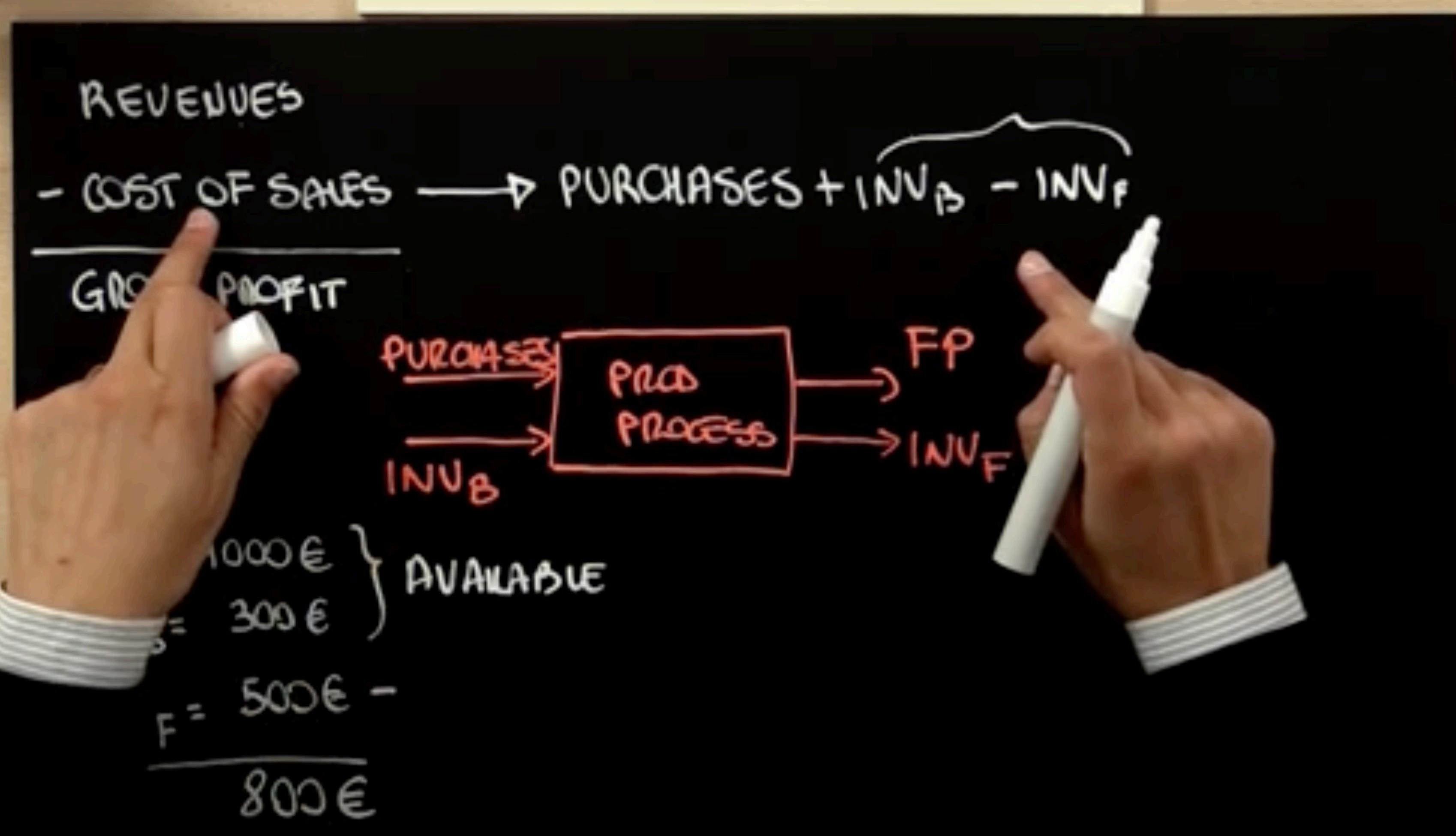
GROSS PROFIT



$$\begin{aligned} RM &= 1000 \text{ €} \\ INV_B &= 300 \text{ €} \end{aligned} \quad \left. \begin{array}{l} \text{AVAILABLE} \\ \text{ } \end{array} \right\}$$

$$\begin{aligned} INV_F &= 500 \text{ €} - \\ &\underline{800 \text{ €}} \end{aligned}$$

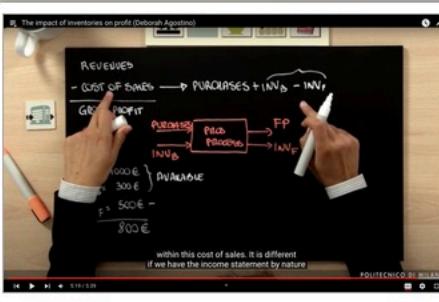
within this cost of sales. It is different if we have the income statement by nature



within this cost of sales. It is different if we have the income statement by nature



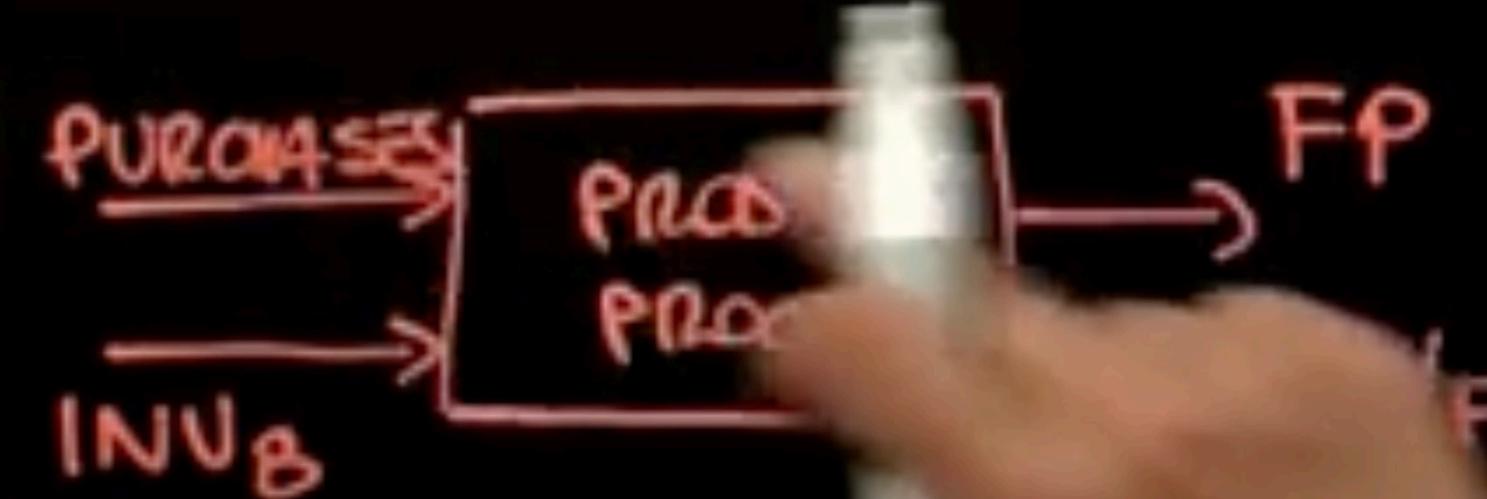
because we will have that the variation of the final inventories enters the amount of



REVENUES

- COST OF SALES \rightarrow PURCHASES + $INV_B - INV_F$

GROSS PROFIT



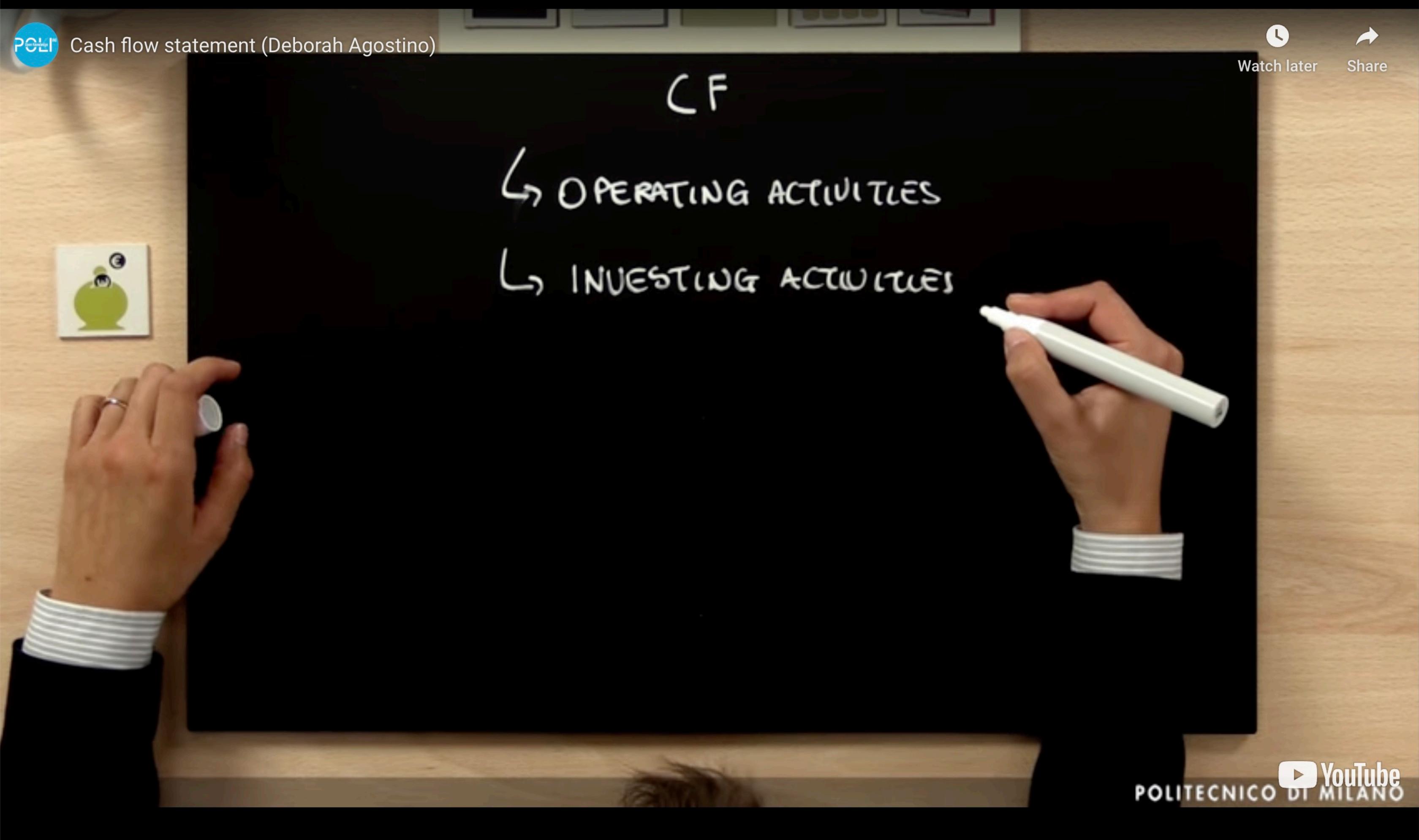
$$RM = 1000 \text{ €} \quad \left. \begin{array}{l} \\ \end{array} \right\} \text{AVAILABLE}$$

$$INV_B = 300 \text{ €}$$

$$INV_F = 500 \text{ €} -$$
$$\underline{800 \text{ €}}$$

the revenues, while the inventories of raw material enters the cost of sales.





different with respect to the accrual one.

These flows of cash, cash in and cash out, are recognized distinguishing them in three main categories. So if we have our cash flow statement we can identify the first category in which cash in and cash out are registered which is represented by operating activities.

If we have the operating activities we can identify the cash in because of the selling of the products or the cash out because of the purchasing of components.

So, basically we can find all of the cash that enters and goes out because of the operating activities of production. Then we can find the cash in and cash out that are related to investing activities.

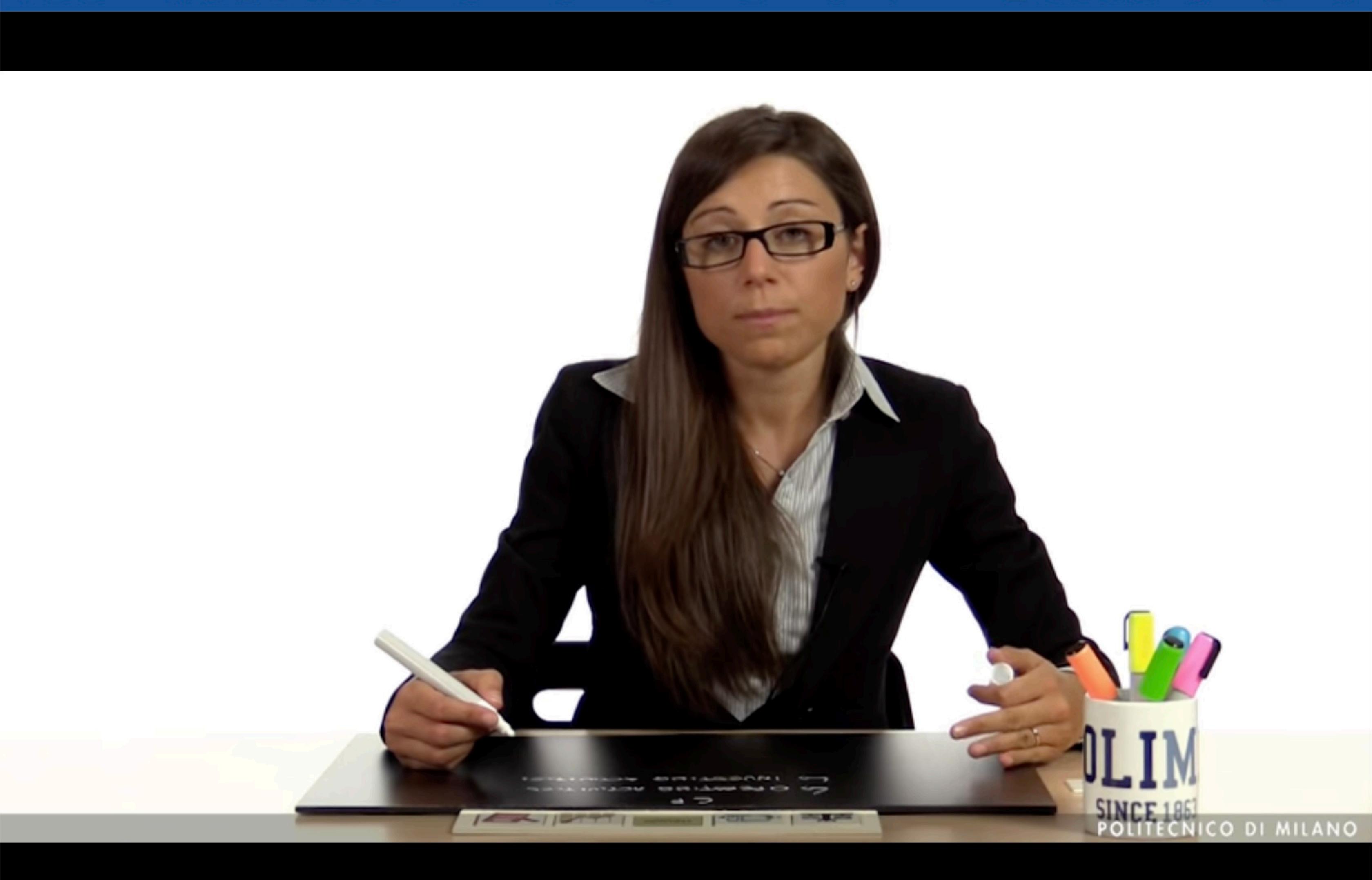
If we have investing activities, we have the cash that enters and goes out because of the disposal of assets. So, for example the acquisition of a new equipment or, for example, the disposal of an equipment, a building or something else.

And finally, we have a third category of the registration of the cash which is represented by the financial activities. In the financial activities, again, we register cash in and cash out but considering all of the cash that changes the equity structure of the company. requirement

For example, the requirement of a new bank debt or, for example, the distribution of the dividend.

In terms of cash flow statement, it can be defined by adopting two different approaches.

So, the international accounting standard gives the company the possibility of defining



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Course: 052795 - STRATEGY | 096078 - ACCOUNTING, FINA | Course | FinAccount101 | POK | Cash flow statement | 2 - | Solution to the inventories exe | +

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CF

↳ OPERATING ACTIVITIES

↳ INVESTING ACTIVITIES

↳ FINANCIAL ACTIVITIES

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So, the international accounting standard gives the company the possibility of defining the cash flow statement by using a direct method or an indirect one.
If the direct method is adopted, basically, by looking at the three different areas of activities, we can identify the cash in and cash out with respect to operating activities, investing activities and financing activities. So, if we start for example from the operating

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آموزش راه اندازی (0) ... آموزش زبان ایتالیایی PMB Ga4

| DIRECT METHOD | |
|--|----------------|
| Operating activities | Euro |
| + Cash receipts from customers | 55.000 |
| - Cash paid to suppliers | -7.000 |
| - Cash paid to employees | -8.500 |
| - Cash paid for other operating expenses | -10.000 |
| - Interest paid | -2.600 |
| - Income taxes paid | -7.800 |
| <i>Net cash from operating activities</i> | 19.100 |
| Investing activities | |
| - Acquisition of assets | -15.000 |
| + Disposal of assets | +3.000 |
| <i>Net cash used in investing activities</i> | -12.000 |
| Financing activities | |
| - Dividends paid | -3.500 |
| +/- Repayments of borrowings | -2.700 |
| <i>Net cash from financing activities</i> | -6.200 |
| <i>Net increase/(decrease) in cash</i> | +900 |
| <i>Cash at the beginning of the year</i> | +2.300 |
| <i>Cash at the end of the year</i> | +3.200 |

| INDIRECT METHOD | |
|--|----------------|
| Operating activities | |
| Profit before interest and income taxes | +24.100 |
| + Depreciation and Amortisation | +4.000 |
| + Changes in receivables | -2.600 |
| + Changes in inventories | -1.300 |
| + Changes in trade payables | +700 |
| - Interest paid | -2.600 |
| - Income taxes paid | -3.200 |
| <i>Net cash from operating activities</i> | 19.100 |
| Investing activities | |
| - Acquisition of assets | -15.000 |
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If the direct method is adopted, basically, by looking at the three different areas of

activities, we can identify the cash in and cash out with respect to operating activities,

investing activities and financing activities. So, if we start for example from the operating

activities we can identify the cash in because of receipts from customers, and then the cash

out because of the payments of suppliers, employees or other operating expenses.

And then we need to deduct again the cash out flows because of the payment of interests

and the taxes. So, this is the changes of the cash that enters the operating cash flow.

Then, we can identify the cash related to the investing activities. So, the acquisition

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And then we need to deduct again the cash out flows because of the payment of interests and the taxes. So, this is the changes of the cash that enters the operating cash flow.

Then, we can identify the cash related to the investing activities. So, the acquisition of the assets plus the cash in because of the disposal of the assets.

And finally, we have the financing activities in which we can find the cash out flows because of the dividends and the repayments of debts, and the cash in because of the requirements for some debts.

If instead an indirect method is adopted, the starting point is an accrual measure.

So, the starting point of the indirect method is the profit before interests and income taxes which are recognized within the income statement.

| DIRECT METHOD | | INDIRECT METHOD |
|---|----------------|---|
| Operating activities | Euro | Operating activities |
| + Cash receipts from customers | 55.000 | Profit before interest and taxes |
| - Cash paid to suppliers | -7.000 | + Depreciation |
| - Cash paid to employees | -8.500 | + Changes in working capital |
| - Cash paid for other operating expenses | -10.000 | + Changes in assets and liabilities |
| - Interest paid | -2.600 | - Interest paid |
| - Income taxes paid | -7.800 | - Income taxes paid |
| Net cash from operating activities | 19.100 | Net cash from operating activities |
| Investing activities | | Investing activities |
| - Acquisition of assets | -15.000 | - Acquisition of assets |

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flow statement (Deborah Agostino)

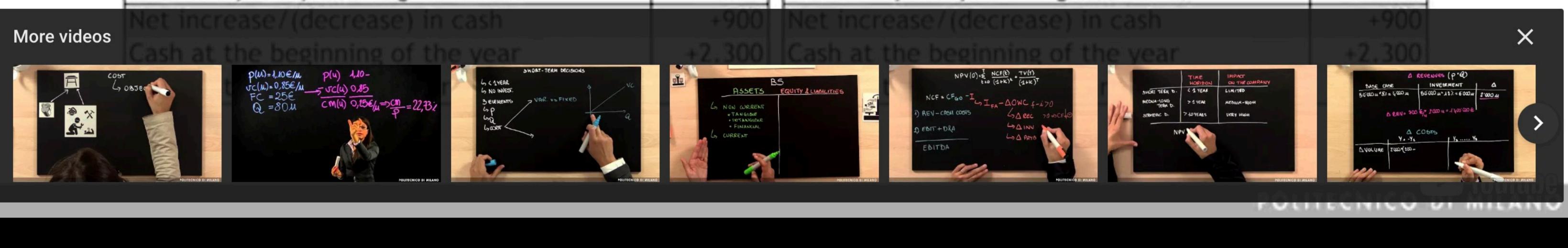
DIRECT METHOD

| | €uro |
|--|------------|
| Operating activities | |
| + Cash receipts from customers | 55.00 |
| - Cash paid to suppliers | -7.00 |
| - Cash paid to employees | -8.50 |
| - Cash paid for other operating expenses | -10.00 |
| - Interest paid | -2.60 |
| - Income taxes paid | -7.80 |
| <i>Net cash from operating activities</i> | 19.10 |
| Investing activities | |
| - Acquisition of assets | -15.00 |
| + Disposal of assets | +3.00 |
| <i>Net cash used in investing activities</i> | -12.00 |
| Financing activities | |
| - Dividends paid | -3.50 |
| + / - Repayments of borrowings | -2.70 |
| <i>Net cash from financing activities</i> | -6.20 |

INDIRECT METHOD

| Operating activities | |
|--|----------------|
| Profit before interest and income taxes | +24.100 |
| + Depreciation and Amortisation | +4.000 |
| + Changes in receivables | -2.600 |
| + Changes in inventories | -1.300 |
| + Changes in trade payables | +700 |
| - Interest paid | -2.600 |
| - Income taxes paid | -3.200 |
| <i>Net cash from operating activities</i> | 19.100 |
| Investing activities | |
| - Acquisition of assets | -15.000 |
| + Disposal of assets | +3.000 |
| <i>Net cash used in investing activities</i> | -12.000 |
| Financing activities | |
| - Dividends paid | -3.500 |
| +/- Repayments of borrowings | -2.700 |
| <i>Net cash from financing activities</i> | -6.200 |

If instead an indirect method is adopted, the starting point is an accrual measure.



| INDIRECT METHOD | |
|-----------------------------|-----------------------|
| Operating activities | |
| uro | |
| 55.000 | +24.100 |
| -7.000 | +4.000 |
| -8.500 | -2.600 |
| -10.000 | -1.300 |
| -2.600 | +700 |
| -7.800 | -2.600 |
| 19.100 | -3.200 |
| | 19.100 |
| | |
| Investing activities | |
| | |
| -15.000 | -15.000 |
| | POLITECNICO DI MILANO |

other operating expenses.

And then we need to deduct again the cash out flows because of the payment of interests

and the taxes. So, this is the changes of the cash that enters the operating cash flow.

Then, we can identify the cash related to the investing activities. So, the acquisition

of the assets plus the cash in because of the disposal of the assets.

And finally, we have the financing activities in which we can find the cash out flows because of the dividends and the repayments of debts, and the cash in because of the requirements for some debts.

If instead an indirect method is adopted, the starting point is an accrual measure.

So, the starting point of the indirect method is the profit before interests and income taxes which are recognized within the income statement.

So, basically, we have an accrual value that should be adjusted in order to

arrive to a cash value. So if we start from this profit before interests and income taxes

it is necessary to add again all of those costs that do not represent a cash out flows,

and these costs are the depreciation and the amortization. We add them because they have

been previously deducted in order to calculate the profit. Remember that we are talking about

costs which do not give rise to cash out flows. Then we need to adjust this profit by adding

what is defined as operating working capital. The operating working capital accounts for

the variation in receivables, inventories and trade payables. Because, again, we have

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what is defined as operating working capital. The operating working capital accounts for

the variation in receivables, inventories and trade payables. Because, again, we have

a difference between the accrual logic and the cash logic. So, let's think, for examples of receivables.

We add them because they have been previously deducted in order to calculate the profit. Remember that we are talking about costs which do not give rise to cash out flows. Then we need to adjust this profit by adding what is defined as operating working capital. The operating working capital accounts for the variation in receivables, inventories and trade

| | |
|---|---------------|
| + Depreciation and Amortisation | +4.000 |
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| + Changes in inventories | -1.300 |
| + Changes in trade payables | +700 |
| - Interest paid | -2.600 |
| - Income taxes paid | -3.200 |
| <i>Net cash from operating activities</i> | 19.100 |

We add them because they have been previously deducted in order to calculate the profit. Remember that we are talking about costs which do not give rise to cash out flows. Then we need to adjust this profit by adding what is defined as operating working capital. The operating working capital accounts for the variation in receivables, inventories and trade payables. Because, again, we have a difference between the accrual logic and the cash logic. So, let's think, for examples of receivables. If we have at the end of the period, the amount of receivables which is higher than the amount of receivables that we have at the beginning of the period,

Cash flow statement (Deborah Agostino)

INDIRECT METHOD

Operating activities

| | |
|---|---------------------------|
| Profit before interest and income taxes | +24.100 |
| + Depreciation and Amortisation | +4.000 |
| + Changes in receivables | final > initial -2.600 |
| + Changes in inventories | -1.300 |
| + Changes in trade payables | +700 |
| - Interest paid | -2.600 |
| - Income taxes paid | -3.200 |
| Net cash from operating activities | 19.100 |

Investing activities

| | |
|-------------------------|---------|
| - Acquisition of assets | -15.000 |
|-------------------------|---------|

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been previously deducted in order to calculate the profit. Remember that we are talking about

costs which do not give rise to cash out flows. Then we need to adjust this profit by adding

what is defined as operating working capital. The operating working capital accounts for

the variation in receivables, inventories and trade payables. Because, again, we have

a difference between the accrual logic and the cash logic. So, let's think, for examples of receivables.

If we have at the end of the period, the amount of receivables which is

higher than the amount of receivables that we have at the beginning of the period,

this means that the amount of the cash for the company is lower and the reason why is because

we have receivables rather than having the cash inflows because of the selling of the products.

The same happens with inventories. If the inventories at the end of the period are higher

than the inventories at the beginning of the period we have the impact on the cash which is negative

because this means that the company purchases inventories, so we have a cash out flow.

It is the opposite, instead if we have the trade payables because if we

have that the trade payables are higher than what we have at the beginning of the year,

the impact on the cash is positive and the reason why is because we have the debt,

in this case the trade payables, rather than having the cash out flows. Given this adjustment,

so once we had the depreciation and the amortization, and the variation of the operating working capital,

POLI What are costs (Deborah Agostino)



COST
↳ OBJECTIVES

- 1) INVENTORIES
- 2) SHORT - TERM DM
- 3) RESPONSIBILITY CENTRES

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Or, for example, which is the best production mix?
Basically, all of the decisions which are related to the operating activities can be defined as short terms decisions and can be deal with,
by using data about the costs. And then the third objective of dealing with costs is represented
by the evaluation of the so called responsibility centers.
Responsibility centers can be defined as the organizational units
that we have inside the enterprise and basically we can use data
about cost in order to define the performances, to measure and
evaluate the performances of these organizational units.
And basically, we can say that management accounting deals
with data about cost in order to support these three different kinds of activities.

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End of transcript. Skip to the start