

Tutorial 11 (Week 13): Understanding FS – SCF

- (a) Analyze SBS Transit's Statement of Cash Flows, what pattern can you identify from its three sections (operating, investing and financing) for the financial years 2024 and 2023, and how would you interpret it? Was the overall net cash flow positive or negative in each year?

	2024	2023
CFO	41,949,000	74,872,000
CFI	18,804,000	(2,776,000)
CFF	(46,905,000)	(45,435,000)
Net cash flow for the year	13,028,000	26,661,000

SBS Transit has positive cash flows from operations for both years, but there was a significant drop from \$74,872,000 in 2023 to \$41,949,000 in 2024. Its cash flow from investing activities was negative in 2023 but positive in 2024. The positive cash flow in 2024 was mainly due to a large inflow of \$26,517,000 from the disposal of its PPE. Cash flow from financing activities was negative in both years, mainly due to the payment of dividends and lease liabilities. The overall net cash flow was positive in both years.

- (b) Compare and comment on SBS Transit's cash flows from operating activities (CFO) for the years 2024 and 2023. What was the main factor contributing to the change in CFO between the two years? Suppose SBS Transit increased its trade receivables significantly in 2025 due to slower customer payments. How would this affect the operating cash flows?

Cash flow from operations decreased significantly in 2024 as compared to 2023, and the largest factor contributing to this reduction is its trade and other payables, which declined by \$35,912,1000 in 2024. If SBS Transit increased its trade payables significantly in 2025 due to slower customer payments, this would reduce its operating cash flow.

- (c) The main outflow of cash for SBS Transit in 2024 for its investing activities is the acquisition of PPE. Does the acquisition of PPE figure reported on the Statement of Cash Flow ties with the acquisition of PPE figure disclosed in Note 10 of the financial statements? Why is that so, and should these two numbers always be the same?

The SCF reports \$20,351,000 as the amount of cash that was paid for the acquisition of PPE in 2024. Note 10 however, shows that a total of \$21,814,000 new PPE additions were made in

2024. This means that not all the PPE purchased in 2024 were paid in cash. If a company acquires PPE without using cash, then the amount of cash outflow reported in the SCF will not be the same as the total amount of PPE additions.

(d) Imagine SBS Transit raised \$100 million in 2025 through a new debt issue to finance its growth and expansion. Where would this transaction appear in the SCF, and how would it affect the company's leverage and future cash flows?

If SBS Transit raised \$100 million through debt, the amount would appear under cash flows from financing activities as a cash inflow from the issuance of debt. This transaction would increase the company's leverage significantly. In the short term, SBS Transit will receive a substantial cash inflow upon obtaining the loan. However, the debt would also create future cash outflows in the form of interest payments and principal repayments. These ongoing obligations would reduce future cash flows and could impact the company's liquidity and financial flexibility over time.

(e) Calculate SBS Transit's cash flow to net income for the financial years 2024 and 2023. What does this ratio reveal about the quality of SBS Transit's earnings? (Round your answers to 2 decimal places)

	2024	2023
Cash Flow from Operations	41,849,000	74,872,000
Net Income	70,301,111	69,076,000
Cash Flow to Net Income	0.60	1.08

The cash flow to net income ratio shows how well net income is supported by actual cash generation from its operations and can be seen as an indicator of the company's earnings quality. The ratio for SBS Transit dropped from 1.08 in 2023 to 0.60 in 2024, showing a weaker cash generation relative to its net profit on 2024.

~ End of Tutorial 11 ~