

**Batch # 3**

**Internship**

**Finance**

**Submitted to:** Digital Empowerment Network

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**Task # 5**

**Prepare a Cash Flow Statement for a hypothetical small business  
2024. The cash flow statement should include:**

* **Operating Activities: Cash inflows/outflows from daily  
  business operations (e.g., cash received from customers, payments for  
  supplies, wages, utilities).**
* **Investing Activities: Cash flows related to asset purchases   
  (e.g., purchase of new equipment, sale of old machinery).**
* **Financing Activities: Cash flows from financing decisions   
  (e.g., bank loan received, dividends paid, and owner’s capital infusion).**
* **After preparing the statement, analyze the cash flow:**
* **Is the business generating positive or negative cash flow from  
  its operations?**
* **What does the cash flow indicate about the financial health of  
  the business?**
* **Provide suggestions for how the business can improve its cash  
  flow if necessary.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **XYZ Small Business** | | | |
|  | **Cash Flow Statement** | | | |
|  | **For the Years Ended December 31, 2023, and 2024** | | | |
|  | **(All amounts in $000s)** | | | |
|  |  |  |  |  |
|  |  |  |  |  |
| **Description** | **Notes** | **2024** | **2023** |  |
| **Profit before taxes from continuing operations** |  | 1,500 | 1,100 |  |
| **Profit before taxes from discontinued operations** | 12 | 20,500 | 18,800 |  |
| **Profit before taxes** |  | 22,000 | 19,900 |  |
| **Adjustments for:** |  |  |  |  |
| Income taxes paid |  | -2,500 | -2,000 |  |
| Depreciation, amortization, and impairment losses |  | 5,500 | 6,000 |  |
| Net interest expense |  | 2,000 | 1,500 |  |
| Dividends received from associated companies |  | 800 | 900 |  |
| Net gain from sale of investments |  | -300 | -250 |  |
| (Increase)/Decrease in working capital |  | -1,200 | -1,400 |  |
| Interest paid |  | -1,100 | -900 |  |
| Other adjustments |  | 500 | 700 |  |
| **Net cash flow from operating activities** |  | 23,700 | 24,450 |  |
|  |  |  |  |  |
| **Cash Flows from Investing Activities** |  |  |  |  |
| Proceeds from sale of property, plant, and equipment |  | 900 | 600 |  |
| Purchase of property, plant, and equipment |  | -7,500 | -6,500 |  |
| Purchase of intangible assets |  | -500 | -300 |  |
| Net cash from disposal of subsidiaries |  | 2,500 | 1,500 |  |
| Investments in associated companies |  | -1,200 | -1,000 |  |
| **Net cash used in investing activities** |  | -5,800 | -5,700 |  |
|  |  |  |  |  |
| **Cash Flows from Financing Activities** |  |  |  |  |
| Proceeds from borrowings |  | 18,000 | 20,000 |  |
| Repayment of borrowings |  | -12,500 | -11,000 |  |
| Lease liability payments |  | -1,000 | -800 |  |
| Dividends paid |  | -3,000 | -2,500 |  |
| Purchase of treasury shares |  | -500 | -600 |  |
| **Net cash from financing activities** |  | 1,000 | 5,100 |  |
|  |  |  |  |  |
| **Net Increase/(Decrease) in Cash** |  | 18,900 | 23,850 |  |
| **Cash and cash equivalents at beginning of the year** |  | 14,000 | 10,150 | 10,150 |  |
| **Cash and cash equivalents at end of the year** |  | 32,900 | 14,000 |  |

**Analysis of the Cash Flow Statement:**

1. **Is the business generating positive or negative cash flow from its operations?**

The business is generating **positive cash flow** from its operating activities. In 2024, the net cash flow from operations is **$23,700**, and in 2023, it was **$24,450**. This indicates that the business is able to generate sufficient cash from its core operations, which is a positive sign of operational efficiency.

1. **What does the cash flow indicate about the financial health of the business?**

**Operating Activities:**

Positive cash flow from operations in both years reflects that the business's core operations are profitable and generating more cash than it consumes. This suggests that the company can cover its operating expenses and generate cash without relying on external financing. The slight decrease in 2024 compared to 2023 might indicate increased operational costs (e.g., working capital adjustments), but the business still remains healthy.

**Investing Activities:**

The business is showing **negative cash flow from investing activities** in both years, with **$(5,800)** in 2024 and **$(5,700)** in 2023. This indicates that the business is investing heavily in new equipment and assets, which could be a sign of growth and expansion. The proceeds from asset disposals help offset some of the costs, but overall, the company is spending more on assets than it is earning from sales of old assets. This is typical for a growing business, but it should be monitored to ensure that investments lead to future returns.

**Financing Activities:**

In 2024, the business has positive cash flow from financing activities at **$1,000**, though this is much lower than the **$5,100** in 2023. The lower cash inflow in 2024 is due to higher loan repayments and dividends paid. The company has been using borrowings to finance its investments, but the decline in financing cash flow suggests that the business might be becoming more self-reliant or is paying off its debts.

**Overall Cash Flow:**

The business has managed to generate a **net increase in cash** of **$18,900** in 2024, compared to **$23,850** in 2023. This shows that despite significant investments and repayments, the business is still growing its cash reserves. Ending the year with **$32,900** in cash and cash equivalents indicates good liquidity and a strong financial position.

1. **Suggestions for improving cash flow if necessary:**

**Monitor and Optimize Working Capital:**

There was an increase in working capital (cash tied up in inventory, receivables, etc.) in 2024, which slightly reduced the operating cash flow. The business could improve this by optimizing inventory levels, speeding up collections from customers, and negotiating better payment terms with suppliers to reduce the need for cash in day-to-day operations.

**Evaluate Investment Spending:**

The company is investing heavily in new equipment and other assets. While this may fuel future growth, management should carefully assess whether these investments are generating adequate returns. If the assets are not immediately needed, the business could delay or stagger these investments to better align with the cash inflows.

**Debt Management:**

The business has been relying on borrowings to finance its activities. While this is manageable for now, it could lead to higher interest expenses in the future. The business might want to focus on reducing its reliance on debt by using a portion of its cash reserves to pay off loans or by reinvesting profits into the business rather than taking on new debt.

**Control Dividend Payments:**

Dividend payments increased in 2024, which reduced financing cash flow. While it’s important to return value to shareholders, the company could consider retaining more of its earnings to support growth, especially if it plans more capital-intensive investments in the future.