

Q1. What is a cash flow statement?

Definition

A cash flow statement is a financial statement that provides a snapshot of a company's inflows and outflows of cash and cash equivalents over a particular period of time, typically a month, quarter, or year. It provides stakeholders with information about a company's ability to generate cash, pay its debts, and fund its investments.

Q2. What are the main components of a cash flow statement?

Components

The three main components of a cash flow statement are: Operating Activities, Investing Activities, and Financing Activities. Operating Activities involve cash flows related to a company's core business operations, such as cash received from customers and cash paid to suppliers. Investing Activities involve cash flows related to the purchase or sale of assets, such as property, plant, and equipment. Financing Activities involve cash flows related to the issuance or repayment of debt and equity, such as loans and dividends.

Q3. What is the difference between cash flow statement and Income statement?

Difference

The key difference between a cash flow statement and an income statement is the timing of when revenues and expenses are recognized. An income statement recognizes revenues and expenses when they are earned or incurred, regardless of when the cash is received or paid. In contrast, a cash flow statement recognizes revenues and expenses only when the cash is received or paid. This means that a company may report a profit on its income statement but still experience a cash shortage if it has not received payment from its customers.

Q4. What are the benefits of cash flow statement?

Benefits

The benefits of a cash flow statement include: providing stakeholders with a clear picture of a company's financial health, allowing companies to identify areas where they can improve their cash management, enabling companies to plan and make informed decisions about investments and funding, and providing a basis for forecasting future cash flows and making strategic decisions.

Q5. What are the limitations of cash flow statement?

Limitations

The limitations of a cash flow statement include: it does not provide information about a company's profitability or return on investment, it does not provide information about a company's future cash flows, it is susceptible to manipulation through aggressive accounting techniques, and it may not accurately reflect a company's cash position if it has a large amount of non-cash items, such as depreciation and amortization.