Analyzing the Accuracy of Teck Resources' Accrual Accounting Earnings through Cash Flow Information

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The accrual accounting earnings in this context is regarded as information presented in the income statement in general. The quality of earning can be explained in many ways, and central ideas about it is the degree to which earnings whether are cash, recurring or nonrecurring, and based on precise measurement and estimates that are subject to change. Fundamental qualities of the description are reliability and relevance. The reliability demands the accounting metric associated is verifiable, free from bias and errors, and accurate presentation. The relevance requires the accounting metric is timely and has predictive power. The accounting earnings' quality subject to numbers fluctuation, aggressiveness in accounting policies, anomalies. With the help of a cash flow statement, the quality of earnings can be assessed. We will adopt Teck Resources statement of cash flow to assess the quality of earnings in the following aspect.

First, the stories told by the income statement should match the information reflected in the statement of cash flows. The income statement starting with the net income for the year ended, of 2,915 million. The cash flow statement also started with a profit of 2,915 million and the increase in cash and cash equivalents is 977 million. The cash components of the profit took almost a third of total profit, which is reasonable in this context. The rest of the profit could be achieved from receivables and other methods of payments in the equivalent values that matches Teck's business nature.

Second, the increase in net income for the year 2021 has a corresponding increase in cash flow from operations. The cash flow from operating activities increases from 1,563 million to 4,738 million from 2020 to 2021, corresponding with the net income's increase from a loss of 944 million to a 2,915 million profit. The red flag occasion is where the increase in net income without a corresponding operating cash flow increases. This may be the case of increased credit sales from loose credit terms, reflecting a low quality of earnings. Users can also be wary about the situation where high net income but with negative operating cash flows. Such increase in net income can originate from increase in earnings not from ordinary business activities.

Third, what the accrual accounting earnings on the income statement cannot reflect is the earning's sustainability. The sustainability can be assessed not only through whether a major component of net income is from primary business, but also can be assessed through investing activities and financing activities in the statement of cash flow. It would be a good sign for the company's cash flow of investing activities account and dividend paid account to be negative.

The outflow of cash through the investing activities, particular expenditures on PP/E, shows the expanding of production, thus indicates that business is viable and sustainable. In Teck's case, the expenditures on PP/E remain negative in both years. The outflow of dividends speaks volumes of the company that business is lucrative.

Furthermore, other anomalies such as one-time events and accounting tricks are not seen in the Teck's cash flow statement and income statement, showing a good quality of earnings that is relevant and reliable.