

Cash Flow Statement

- Provides information about cash inflows and outflows

- Classification of cash flows:

 - Operating activities

 - Investing activities

 - Financing activities

[The Statement Helps Evaluate]

- Solvency: Ability to pay debts as they come due
- Liquidity: Ability to generate adequate amounts of cash for specific purpose

[Net Income Vs. Net Cash Flow]

■ Net Income:

Accrual basis accounting is followed

- Includes due expenses (salary unpaid), due revenues (Earned but not received)
- Excludes prepaid expenses (Insurance paid in advance) and unearned revenue (received in advance)

[Net Income Vs. Net Cash Flow]

■ Cash Flows:

Cash basis accounting is followed

- Excludes due expenses (salary unpaid), due revenues (Earned but not received)
- Includes prepaid expenses (Insurance paid in advance) and unearned revenue (received in advance)

Operating Activities- Cash Inflows

- Sales of goods or services
- Interest received
- Dividend received
- Other sources not relating to investment and financing activities (rent revenue, insurance settlement etc)

Operating Activities- Cash Outflows

- Purchase of goods
- Pay to salary or wage
- Interest paid (but not dividend paid)
- Other expenses e.g. advertising, supplies, travel, miscellaneous etc.
- Other items not relating to investment and financing activities (contribution to charities)

[Investing Activities]

Cash Inflows:

- Sale of property, plant and equipment
- Sale of marketable securities
- Collection of loans

Cash Outflows:

- Purchase of property, plant and equipment
- Purchase of marketable securities
- Making of loans

[Financing Activities]

Cash Inflows:

- Issuing share or stock
- Issuing debt (bond, note, mortgage etc)

Cash Outflows:

- Payments of debts
- Repurchasing stock
- Paying cash dividends

Approaches of Operating Activities

- **Direct Approach**: Converts individual income statement items from accrual to cash basis
- **Indirect Approach**: Net income is adjusted to convert to cash basis from accrual basis

Indirect Approach: Changes in Balance Sheet Items

- **Operating Section:** Changes in Current Assets and Current Liabilities
- **Investing Activities:** Changes in Long Term/Fixed Assets
- **Financing Activities:** Changes in Long Term Liabilities and Owner's Equity

Operating Activities: Indirect Approach

Net Income

+decrease in non-cash assets affecting income

(current assets i.e. A/R, Prepaid Expense)

+increase in non-cash liabilities affecting income

(current liabilities i.e. A/P, salary payable, tax payable)

+ non-cash expenses :depreciation, amortization

-increase in non-cash assets affecting income

-decrease in non-cash liabilities affecting income

=Cash flows from operating activities

Statement of Cash Flows (Indirect Approach)For the year ended December 31, 2023

Cash flows from operating activities:

Net Income

- + decrease in current assets
- + increase in current liabilities
- Increase in current assets
- decrease in current liabilities
- +Depreciation

Cash flow from investing activities:

- Purchase of plant and equipment
- +Proceeds from sale of property
- New investment
- +Proceeds from sale of investment

Cash flow from financing activities:

- +Proceeds from issuance of common stock
- +Proceeds from issuance of debt/loan
- Cash paid for redemption of bonds/ debenture
- Dividend paid

Net increase (decrease) in cash during the period

Add: Beginning balance

Cash at hand at the end of the period