ILLUSTRATIONS OF CASH-FLOW FINANCIAL STATEMENTS pdf

1: Cash Flow Statement | Format | Example | Sections

Cash flow from operating activities is a section of the Statement of Cash Flows that is included in a company's financial statements after the balance sheet and income statements. Investing.

Examples include accounts receivable, accrued receivables, inventory, and prepaid expenses. Examples include accounts payable, accrued liabilities, and deferred revenue. The uses of funds for growth and for maintaining competitive position are revealed. It facilitates planning future ventures and financing needs. Comparative data help the Financial Manager, Controller and CFO identify abnormal or cyclical factors and changes in the relationship among each flow element. The statement is a basis for forecasting earnings based on plant, property, and equipment posture. It assists in appraising growth potential and incorporates cash flow requirements, highlighting specific fund sources and future means of payment. Will the company be able to pay its obligations and dividends? The statement reveals the type and degree of financing required to expand long-term assets and to bolster operations. The Financial Manager, Controller and CFO should compute for analytical purposes cash flow per share equal to net cash flow divided by the number of shares. A high ratio indicates the company is liquid. We now discuss the analysis of the Operating, Investing, and Financing Sections of the statement of cash flows. An analysis of the Operating Section enables the financial executives Controller and CFO to determine the adequacy of cash flow from operating activities to satisfy company requirements. Can the firm obtain positive future net cash flows? The reconciliation tracing net income to net cash flow from operating activities should be examined to see the effect of non-cash revenue and non-cash expense items. A high ratio of cash from sales to total sales points to quality sales dollars. The cash debt coverage ratio equals cash flow from operations less dividends divided by total debt. Cash flow from operations less dividends is referred to as retained operating cash flow. The ratio indicates the number of years current cash flows will be needed to pay debt. Another related ratio is cash flow from operations less dividends divided by the current maturities of long-term debt. These ratios could include adding to the denominator current liabilities or other fixed commitments such as lease obligations. The cash dividend coverage ratio equals cash flow from operations divided by total dividends. The capital acquisitions ratio equals cash flow from operations less dividends divided by cash paid for acquisitions. The cash return on assets equals cash flow from operations before interest and taxes divided by total assets. A higher ratio means a greater cash return earned on assets employed. However, this ratio contains no provision for the replacement of assets or for future commitments. An award under a lawsuit is a cash inflow from operating activities that results in a nonrecurring source of revenue. An operating cash outlay for refunds given to customers for deficient goods indicates a quality problem with merchandise. Payments of penalties, fines, and lawsuit damages are operating cash outflows that show poor management in that a problem arose which required a non-beneficial expenditure. An analysis of the Investing Section identifies an investment in another company that may point to an attempt for ultimate control for diversification purposes. It may also indicate a change in future direction or change in business philosophy. An increase in fixed assets indicates capital expansion and growth. The CFO should determine which assets have been purchased. Are they assets for risky specialized ventures, or are they stable multipurpose ones? This is a clue as to risk potential and expected return. The nature of the assets shows future direction and earning potential of product lines, business segments, and territories. Are these directions viable? The financial executives Controller and CFO should ascertain whether there is a contraction in the business arising from the sale of fixed assets without adequate replacement. Is the problem corporate e. The financial mixture of equity, bonds, and long-term bank loans impacts the cost of financing. A major advantage of debt is the tax deductibility of interest. However, dividends on stock are not tax deductible. In inflation, paying debt back in cheaper dollars will result in purchasing power gains. The risk of debt financing is the required repayment of principal and interest. Will the company have the funds at maturity? The financial executives must analyze the stability of the fund source to ascertain whether it may be relied on in the future even in a tight money market. Otherwise, there may be problems in maintaining corporate operations in a recession. Where can the company go for funds during times of tight money? By appraising the financing sources, the financing preferences of management are revealed. Is there an inclination toward risk or safety? The ability of a company to finance with the issuance of common stock on attractive terms high stock price indicates that investors are positive about the financial health of the business. The issuance of preferred stock may be a negative indicator because it maymean the company has a problem issuing common stock. Excessive debt means greater corporate risk especially in an economic downturn. The problem is acute if earnings are unstable or declining. The reduction in long-term debt is favorable, however, because it lessens corporate risk. Stockholders favor a company with a high dividend payout. Why are non-cash activities worth considering? How is managerial planning facilitated by analyzing the Statement of Cash Flows? Profitability is only one important ingredient for success. Current and future cash flows are also important. Management is responsible for planning how and when cash will be used and obtained. When planned expenditures require more cash than planned activities are likely to produce, managers must decide what to do. They may decide to obtain debt or equity financing or to dispose of some fixed assets or a business segment. Alternatively, they may decide to reduce planned activities by modifying operational plans such as ending a special advertising campaign or delaying new acquisitions. Or they may decide to revise planned payments to financing sources such as delaying bond repayment or reducing dividends. Managerial planning is aided when evaluating the Statement of Cash Flows in terms of coordinating dividend policy with other corporate activities, financial planning for new products and types of assets needed, strengthening a weak cash posture and credit availability, and ascertaining the feasibility and implementation of existing top management plans. The ratio of net cash flows for investing activities divided by net cash flows from financing activities compares the total funds needed for investment to funds generated from financing. Are fund sources adequate to meet investment needs? Similarly, the ratio of net cash flows for investing divided by net cash flows from operating and financing activities compares the funds needed for investment to the funds obtained from financing and operations. Inadequacy in cash flow has possible serious implications because it may lead to declining profitability, greater financial risk, and even bankruptcy. Here is the balance sheet: And here is the income statement:

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2: Statement of Cash Flows - How to Prepare Cash Flow Statements

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But before we start, have you heard of this saying? This is a common saying in the business world. It is also true, because cash is the lifeblood of the business. The cash flow statement is a key accounting report. In this situation the business would not survive. How could this occur? It could occur if all your sales have been made on credit. In real life this extreme situation would rarely occur, but this example serves to explain that the cash situation of a business is key. And the cash flow statement, which shows us what the business has been doing with its cash - provides vital information. So yes, cash is king - in the business world and even in accounting. Cash can flow in two directions â€" either coming in to your business or going out. Cash coming in to your business is shown as positive amounts, whereas cash going out from your business are shown as negative amounts in parentheses. Like the rest of the financial statements, the cash flow statement is usually drawn up annually, but can be drawn up more often. Cash Flow Statement Sections The statement is divided into four parts. This includes cash receipts cash received from your customers, cash paid to suppliers and employees, interest received or paid and tax paid. For example, one could be spending cash on computer equipment, on vehicles, or even on a building one purchased. We also include cash inflows in this section relating to the sale of a non-current asset that we have already invested in. Thus, the cash received this year from selling equipment that was originally bought invested in three years ago, would also be included in this section. Purchases of assets are put under two different categories: It is where we get cash from. We also include cash outflows in this section that relate to financing that we originally obtained. The final section comprises the net cash increase or decrease for the period and the cash balance at the beginning and end of the period. So one would look over the bank T-account and possibly the cash receipts journal and cash payments journal if needed. Remember, the cash flow statement shows flows of cash, not income and expenses.

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3: Statement of Cash Flows Direct Method - Format | Example | Preparation

The illustrative financial statements are contained on the odd-numbered pages of this publication. The even-numbered pages contain explanatory comments and notes on the disclosure requirements of IFRS.

In this article we will discuss about the preparation of cash flow statement, explained with the help of suitable illustrations. The Cash Flow Statement should report cash flows during the period classified by operating, Investing and Financing Activities. An enterprise presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its business. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities. A single transaction may include cash flows that are classified differently. An enterprise should report cash flows from operating activities using either: The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either: Under the indirect method, the net cash flows from operating activities is determined by adjusting net profit or loss for the effects of: Alternatively, the net cash flows from operating activities may be presented under the indirect method by showing the operating revenues and expenses excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described below are reported on a net basis. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis: Examples of cash receipts and payments referred to in paragraph a above are: Examples of cash receipts and payments referred to in paragraph b are advances made for, and the repayments of: Cash flows arising from each of the following activities of a financial enterprise may be reported on a net basis: In addition to the cash flows described, AS-3 Revised also deals with certain other items as shown below: Foreign Currency Cash Flows: Cash flows arising from transactions in a foreign currency should be recorded in an enterprises reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow: A rate that approximates the actual rate may be used if the result is substantially the same as would arise, if the rates at the date of cash flows were used. The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions. Unrealized gains and losses arising from changes in foreign exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at the end-of-period exchange rates. The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed. The cash flows associated with extraordinary items are disclosed separately as arising from operating, investing or financing activities in the cash flow statement, to enable users to understand their nature and effect on the present and future cash flows of the enterprise. Cash flows from interest and dividends received and paid should be disclosed each separately. Cash flows arising from interest paid and interest and dividends received in the case of a financial enterprise should be classified as cash flows arising from operating activities. In the case of other enterprises, cash flows arising from interest paid should be classified as cash flows from financing activities while interest and dividends received should be classified as cash flows from investing activities. Dividends paid should be classified as cash flows from financing activities. The total amount of interest paid during the period is disclosed in the cash flow statement whether it has been recognized as an expense in the statement of profit and loss or capitalized in accordance with Accounting Standard AS 10, Accounting for Fixed Assets. Interest paid, interest and dividends received are usually classified as operating cash flows for a financial enterprise. However, there is no consensus on the classification of these cash flows for other enterprises. Some argue that interest paid, and interest dividends received may be classified as operating cash flows because they enter into the determination of net profit or loss. However, it is more appropriate that interest paid, interest and dividends received are classified as financing cash flows and investing cash flows respectively, because they are cost of obtaining financial resources or returns on investments. Some argue that dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an enterprise to pay dividends out of operating cash flows. However, it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources. Cash flows arising from taxes on income should be separately disclosed and should be classified as cash flows from operating activities unless they can be specially identified with financing and investing activities. Taxes on income arise on transactions that give rise to cash flows that are classified as operating, investing or financing activities in a cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transactions. Therefore, taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity as appropriate. When tax cash flow are allocated over more than one class of activity, the total amount of taxes paid is disclosed. Investments in Subsidiaries, Associates and Joint Ventures: The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business unit should be presented separately and classified as investing activities. An enterprise should disclose, in aggregate, in respect of both acquisition and disposal of subsidiaries or other business units during the period each of the following: The separate presentation of the cash flow effects of acquisitions and disposals of subsidiaries and other business units as single line items helps to distinguish those cash flows from other cash flows. The cash flows effects of disposals are not deducted from those of acquisition. Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a cash flow statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. Many investing and financing activities do not have a direct impact on current cash flows although they do affect the capital and asset structure of an enterprise. The exclusion of non-cash transactions from the cash flow statement is consistent with the objective of a cash flow statement as these items do into involve cash flows in the current period. Examples of non-cash transactions are: Components of Cash and Cash Equivalents: An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the balance sheet. In view of the variety of cash management practices, an enterprise discloses the policy, which it adopts in determining the composition of cash and cash equivalents. The effect of any change in the policy for determining components of cash and cash equivalents is reported in accordance with Accounting Standard AS 5, Net Profit or Loss for the Period, prior period items and changes in Accounting Policies. An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by it. There are various circumstances in which cash and cash equivalents balances held by an enterprise are not available for use by it. Examples include cash and cash equivalent balances held by a branch of the enterprise that operates in a country where exchange controls or other legal restrictions apply as a result of which the balances are not available for use by the enterprise. Additional information may be relevant to users in understanding the financial position of liquidity of an enterprise. Disclosure of this information, together with a commentary by management, is encouraged and may include: The separate disclosure of cash flows that represent increase in operating capacity and cash flows that are required to maintain operating capacity is useful in enabling the user to determine whether the enterprise is investing adequately in the maintenance of its operating capacity. An enterprise that does not invest adequately in the maintenance of its operating capacity may be prejudicing future profitability for the sake of current liquidity and distributions to owners. Format of Cash Flow Statement: The following is widely used format of Cash Flow Statement: Cash flows shown in bracket are treated as minus figures while making total. The following is the summarised income statement of ABC Ltd. You are required to ascertain Net Cash Flow from Operating activities by:

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4: Analysis Of The Statement Of Cash Flows [With Case Examples] | Accounting, Financial, Tax

Home > Financial Accounting > Financial Statements > Statement of Cash Flows Statement of Cash Flows A statement of cash flows is a financial statement which summarizes cash transactions of a business during a given accounting period and classifies them under three heads, namely, cash flows from operating, investing and financing activities.

Interest Payments Income Tax Payments As you can see, listing these payments gives the financial statement user a great deal of information where receipts are coming from and where payments are going to. Investors, creditors, and management can actually see where the company is collecting funds from and whom it is paying funds to. Business events are recorded with income statement and balance sheet accounts like sales, materials, and inventory. For example, in order to figure out the receipts and payments from each source, you have to use a unique formula. The receipts from customers equals net sales for the period plus the beginning accounts receivable less the ending accounts receivable. Similarly the payments made to suppliers is calculated by adding the purchases, ending inventory, and beginning accounts payable then subtracting the beginning inventory and ending accounts payable. Keep in mind that these formulas only work if accounts receivable is only used for credit sales and accounts payable is only used for credit account purchases. Plus, the direct method also requires a reconciliation report be created to check the accuracy of the operating activities. The reconciliation itself is very similar to the indirect method of reporting operating activities. It stars with net income and adjusts non-cash transaction like depreciation and changes in balance sheet accounts. Since creating this reconciliation is about as much work as just preparing an indirect statement, most companies simply choose not to use the direct method. I know what you are probably thinking. If you have to do an additional reconciliation, why is it called the direct method. It seems like a whole like more work. It has to do with how the operating cash flows are derived. This method looks directly at the source of the cash flows and reports it on the statement. This is the only difference between the direct and indirect methods. The investing and financing activities are reported exactly the same on both reports. As you can see, all of the operating activities are clearly listed by their sources. This categorization does make it useful to read, but the costs of producing it for outweigh the benefits to the external users. This is why FASB has never made it a requirement to issue statements using this method.

5: The Relationship Between Financial Statements

Note: Citations are based on reference standards. However, formatting rules can vary widely between applications and fields of interest or study. The specific requirements or preferences of your reviewing publisher, classroom teacher, institution or organization should be applied.

6: Three Financial Statements - The Ultimate Summary (and Infographic)

In this article we will discuss about the preparation of cash flow statement, explained with the help of suitable illustrations. The Cash Flow Statement should report cash flows during the period classified by operating, Investing and Financing Activities.

7: Cash Flow Statement Example

Financial Statement Stock Illustrations by zaganDesign 21 / Financial statements business diagram Stock Illustration by kgtoh 10 / 3d progress bar on financial report Drawings by nasir 35 / 1, Financial Report Chart Stock Illustrations by cteconsulting 5 / 3d financial documents Stock Illustration by nasir 11 /

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9: What is the difference between a cash flow statement and an income statement? | Investopedia

The Statement of Cash Flows is one of the 3 key financial statements that reports the cash generated and spent during a specific time period. The statement acts as a bridge between the income statement and balance sheet by how money moved in and out of the business.

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