

SANGAM SKM COLLEGE – NADI

Lesson Notes-Week1

YEAR 13

ACCOUNTING

Strand 4- CASH FLOW STATEMENT

Learning outcome

Examine the preparation and interpretation of Cash Flow Statement.

Notes

What is Cash Flow

It is a statement which shows the cash inflows of a business entity and cash outflows from the business entity during an accounting period.

Cash flow helps in:

1.How the company obtains and spends cash.2.Why there may be differences between net income and cash flows 3.Whether the company generates enough cash from operation to sustain the business 4.Whether the company generates enough cash to pay off existing debts as they mature 5.Does the company have enough cash to take advantage of new investment opportunities?

The Statement of Cash Flows enables businesses to:

- Assess its ability to generate cash and determine the future cash needs.
- Check the accuracy of the past assessment of cash flows.
- Assess the firm’s financial structure including its liquidity and solvency.
- Obtain external finance when necessary.
- Examine the relationship between profitability and net cash flow.
- Fund changes in the scope and the nature of its activities.

Classification of Cash Flows

Cash Flows from Operating Activities (CFO)

Cash inflows (+)	Cash outflows (-)
Revenue from sale of goods and services	Payments to suppliers
Interest received	Payments to employees (wages and salaries)
Dividends received	Payments to government (Income tax)
	Payments to lenders
	Payments for other expenses

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Are cash

flows that arise **from normal operations such as revenues and cash operating expenses**. Cash flows from operating activities are regarded as very important because they represent cash flows generated by the entities major business operations. This includes:

Cash Flows from Investing Activities (CFI)

Are cash flows that arise **from investment activities such as the acquisition or disposal of fixed assets and other investments**. This includes:

<p>Cash inflows (+)</p> <ul style="list-style-type: none"> Sale of property, plant and equipment Sale of shares and debentures of other entities Collection of principal on loans to other entities 	<p>Cash outflows (-)</p> <ul style="list-style-type: none"> Purchase of property, plant and equipment Purchase of shares and debentures of other entities Lending to other entities
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Cash Flows from Financing Activities (CFF)

Cash flows from financing activities **relates to changes in the size and composition of the equity and borrowings of an entity**. This includes:

<p>Cash inflows (+)</p> <ul style="list-style-type: none"> Issue of shares Issue of debentures Capital contributed by owner Cash inflow from borrowing (loans, mortgage) 	<p>Cash outflows (-)</p> <ul style="list-style-type: none"> Dividends paid to shareholders Redemption of long-term debt / Share buy backs Repayment of borrowings Drawings by the owner
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Activity 1

Identify under which section of the cash flow the following transaction will take place (Place a tick)

No.	Particulars	CFO	CFI	CFF
1.	Payment for electricity			
2.	Cash paid for salaries			
3.	Cash received from Debtors			
4.	Cash paid for purchase of merchandise			
5.	Cash at bank 1/5/17			

6.	Cash sales			
7.	Dividends paid			
8.	Cash received from sale of Equipment			
9.	Cash paid for other operating expenses			

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Lesson Notes-Week 2
YEAR 13
ACCOUNTING

STRAND	Cash Flow
Content Learning Outcome	Examine the preparation and interpretation of Cash Flow Statements.

Notes

Refer to page 126 and study the format of cash flow statement

Important points

There are 3 different sections in a cash flow

Section 1

Section 2

Section 3

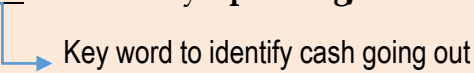
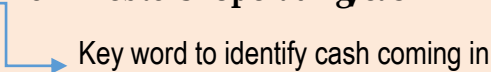

Cash Flows from Operating activities

Cash flow from investing activities

Cash flow from Financing Activities

You need to identify cash inflow and cash outflow for each section

Example

No.	Particulars	\$
1.	Payment for electricity- operating/cash outflow 	300
2.	Cash <u>paid</u> for salaries- operating/cash outflow	1 000
3.	Cash <u>received</u> from Debtors- operating/cash inflow 	12 230
4.	Cash <u>paid</u> for purchase of merchandise- operating/cash outflow 	4 500
5.	Cash at bank 1/5/17	17 600

6.	Cash sales- operating/cash inflow	7 200
7.	Dividends paid	1 340
8.	Cash received from sale of Equipment	5 000
9.	Cash <u>paid</u> for other operating expenses- operating/cash outflow	23 800

Extract of the cash flow statement for the above answer

Cash Flows from Operating activities			
Cash was provided from:			
Receipts from customers	12 230		
Cash sales	7 200	19 430	
Cash was applied to:			
Payments for electricity	300		
Payment to employees	1 000		
Payment for merchandise	4 500		
Payments for other operating expenses	23 800	29 600	
Net Cash used in operating activities			(10 170)

Student Activity from your Accounting text book

1. Activity 4.1.2 –Question no 2 =page no 130

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Lesson Notes-Week 3
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ACCOUNTING

STRAND	Cash Flow
Content Learning Outcome	Examine the preparation and interpretation of Cash Flow Statements.

- Recap the format of the cash flow statement

Student Activity

1. Activity 4.1.4
2. Activity 4.1.5