



SNS College of Technology

Coimbatore - 35



23BAT605 – FINANCIAL STATEMENT ANALYSIS Unit II – ANALYSIS OF FINANCIAL STATEMENTS

Topic: Guess?????



Presented by

Ms.S.Swarnam
Design Thinker

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CASH FLOW STATEMENT

- 3 sections reporting cash flows from different activities
 - Cash flows from operating activities
 - Cash flows from investing activities
 - Cash flows from financing activities



CASH FLOWS: Operating Activities

- Most important cash flows of a business
- 2 methods
 - Direct method
 - Reports operating cash flows as sources, uses of cash
 - Indirect method
 - Reports operating cash by adjusting accrual net income to cash flows



CASH FLOWS: Investing Activities

- Cash *inflows* from investing activities arise from
 - *Selling* fixed assets, investments, intangible assets
- Cash **outflows** from investing activities arise from
 - *Buying* fixed assets, investments, intangible assets



CASH FLOWS: Financing Activities

- Cash *inflows* from financing activities arise from
 - *Issuing* debt, equity securities
- Cash **outflows** from financing activities arise from
 - *(Re)Paying* dividends, debt, *purchasing* treasury stock



Assessment

Identify cash flow from **operating** activity.

- | | |
|-----------------------------|------------------------------|
| 1. Purchased patents | 7. Redeemed bonds |
| 2. Purchased buildings | 8. Paid cash dividends |
| 3. Purchased treasury stock | 9. Sold long-term investment |
| 4. Sold equipment | 10. Issued common stock |
| 5. Net income | 11. Issued bonds |
| 6. Issued preferred stock | |



Assessment

Identify cash flow from **investing** activity.

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Assessment

Identify cash flow from **financing** activity.

- | | |
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NONCASH ACTIVITIES

- Arise from investing, financing activities
 - Examples
 - Issue stock to retire long-term debt
 - Issue stock, debt in exchange for fixed asset
 - Has no direct effect on cash flows
 - Disclosed in separate schedule



CASH FLOWS: Direct Method

- Direct method
 - Reports operating cash flows as sources, uses of cash
 - Adjusts certain income statement items for changes in current assets, liabilities



Rundell, Inc. current accounts used for **Operating** cash flow under direct method

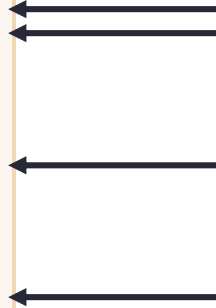
Rundell Inc. Schedule of Changes in Current Accounts			
Accounts	December 31		Increase Decrease ⁺
	2007	2006	
Cash	\$ 97,500	\$ 26,000	\$71,500
Accounts receivable (net)	74,000	65,000	9,000
Inventories	172,000	180,000	8,000 ⁺
Accounts payable (merchandise creditors)	43,500	46,700	3,200 ⁺
Accrued expenses payable (operating expenses)	26,500	24,300	2,200
Income taxes payable	7,000	8,400	500 ⁺
Dividends payable	14,000	10,000	4,000

Continued



Rundell, Inc. income statement items used for **Operating** cash flow under direct method

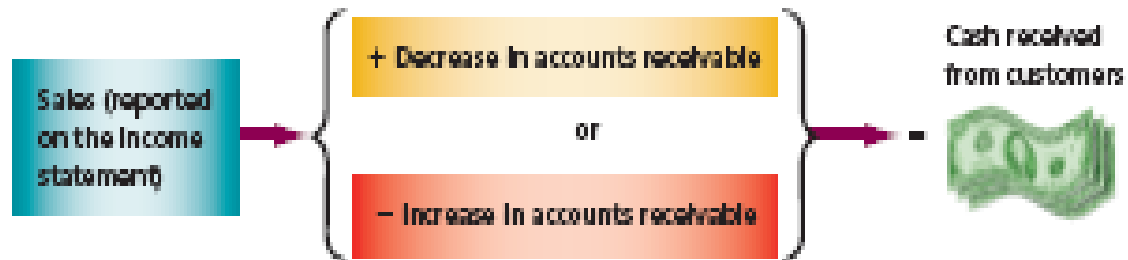
Rundell Inc. Income Statement For the Year Ended December 31, 2007		
Sales		\$ 1,180,000
Cost of merchandise sold		<u>790,000</u>
Gross profit		\$ 390,000
Operating expenses:		
Depreciation expense	\$ 7,000	
Other operating expenses	<u>196,000</u>	
Total operating expenses		<u>203,000</u>
Income from operations		\$ 187,000
Other income:		
Gain on sale of land	\$ 12,000	
Other expense:		
Interest expense	<u>8,000</u>	<u>4,000</u>
Income before income tax		\$ 191,000
Income tax expense		<u>83,000</u>
Net income		<u>\$ 108,000</u>





DIRECT METHOD: Cash Received from Customers

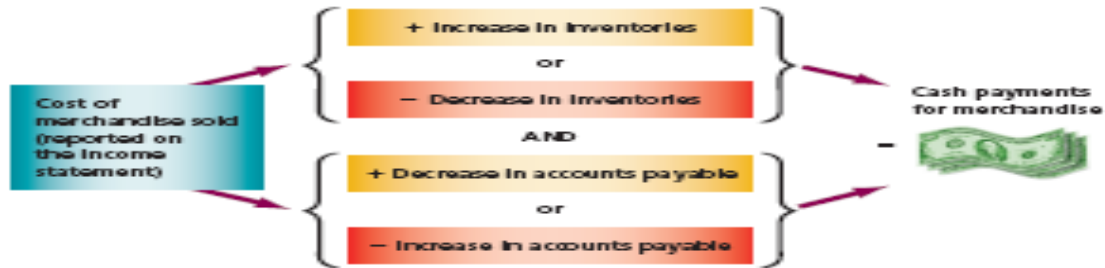
Sales adjusted for change accounts receivable





DIRECT METHOD: Cash Paid for Inventory

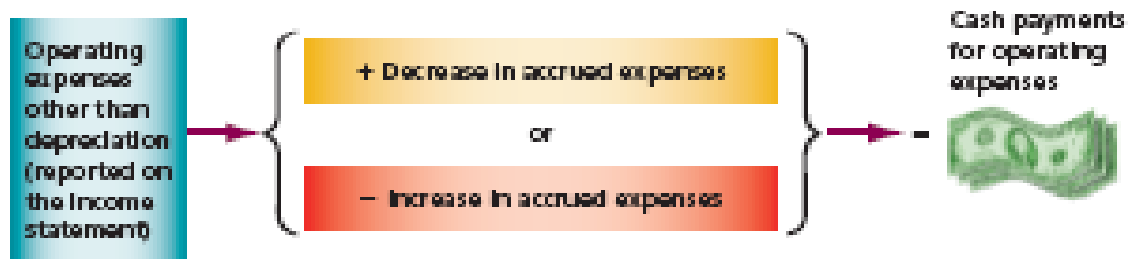
Cost of inventory adjusted for changes in inventory & accounts payable





DIRECT METHOD: Cash Paid for Operating Expenses

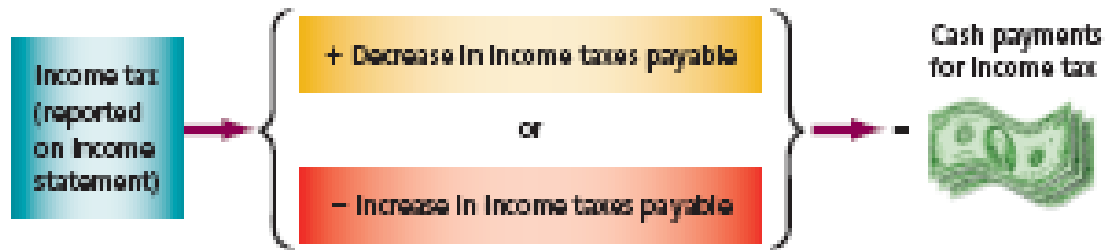
Operating expenses adjusted for changes in accrued expenses





DIRECT METHOD: Cash Paid for Income Tax

Income tax expense adjusted for changes in taxes payable





Rundell Inc.
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities:		
Cash received from customers		\$1,171,000
Deduct: Cash payments for merchandise	\$785,200	
Cash payments for operating expenses	193,800	
Cash payments for interest	8,000	
Cash payments for income taxes	<u>83,500</u>	<u>1,070,500</u>
Net cash flow from operating activities		\$100,500
Cash flows from investing activities:		
Cash from sale of land		\$ 72,000
Less: Cash paid to purchase land	\$ 15,000	
Cash paid for purchase of building	<u>60,000</u>	<u>75,000</u>
Net cash flow used for investing activities		(3,000)
Cash flows from financing activities:		
Cash received from sale of common stock		\$ 48,000
Less: Cash paid to retire bonds payable	\$ 50,000	
Cash paid for dividends	<u>24,000</u>	<u>74,000</u>
Net cash flow used for financing activities		(26,000)
Increase in cash		\$ 71,500
Cash at the beginning of the year		26,000
Cash at the end of the year		<u>\$ 97,500</u>
Schedule Reconciling Net Income with Cash Flows from Operating Activities:		
Net Income, per income statement		\$108,000
Add: Depreciation	\$ 7,000	
Decrease in inventories	8,000	
Increase in accrued expenses	<u>2,200</u>	<u>17,200</u>
		\$125,200
Deduct: Increase in accounts receivable	\$ 9,000	
Decrease in accounts payable	3,200	
Decrease in income taxes payable	500	
Gain on sale of land	<u>12,000</u>	<u>24,700</u>
Net cash flow from operating activities		<u>\$100,500</u>



Summary

Cash Flow Statement

SUMMARY





References...

- <https://www.accountingcoach.com/cash-flow-statement/explanation>
- <https://courses.lumenlearning.com/boundless-accounting/chapter/the-statement-of-cash-flows/>



Thank
you





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