Analysis Implications of Cash Flows

** Uses of Cash Flow Statement/importance of Cash Flow Statement**

استخدامات وأهمية كشف التدفق النقدي

**a) Short-term Planning of Business التخطيط قصير الأجل للأعمال**

It is helpful in the short-term planning of the business unit by indicating in advance as to how much funds are needed in future, how much of these funds can be raised internally and how much should be arranged from outside etc.

**b) Useful in Internal Financial Management مفيدة في الإدارة المالية الداخلية**

Since Cash-flow statement reveals the amount of cash inflow from operations (and not income from operations), it will be helpful in internal financial management either in liquidity of a plant or any other fixed asset or in devising the dividend policy of the business unit.

**c) Useful in Capita! Budgeting Decisions مفيدة في قرارات الموازنة الرأسمالية**

It is helpful in taking capital budgeting decisions by indicating the availability of funds or otherwise during the period under consideration.

**d) Focusing on Trend of Movement التركيز على اتجاه الحركة**

**e) Planning in Replacement of Outdated Assets التخطيط لاستبدال الموجودات القديمة**

It is helpful to management in planning replacement of outdated assets and in formulating dividend policies.

**f) Useful to Financial Analyst مفيدة للمحلل المالي**

It explains to the financial analyst, the reason why the business unit has run out of money, despite the fact that the unit has made a profit, or it has surplus of cash despite the fact that the business has incurred a loss.

**g) Movement of Cash حركة النقدية**

**Example :**

The following data is extracted from the books of Al-Falah Company for the year 2016 (amounts in dinars):

**Income statement Trade company in 31/12/2016**

|  |  |
| --- | --- |
| Total | Details |
| 1100000 | Net Sales |
| 575000 | -Cost of Sales |
| 525000 | **=Gross Income** |
| 321000 | -Operating Expenses |
| 204000 | **=Net Operating Income** |
| 25000 | +Other Revenues |
| 4000 | -Other Expenses |
| 225000 | **=Net Income Before Tax** |
| 51000 | -Income Tax |
| 174000 | **=Net Income After Tax** |

**Financial statement Trade company in 31/12**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 2016 | 2015 | Liabilities and Owners equity | 2016 | 2015 | Assets |
|  |  | Current Liabilities |  |  | Current Assets |
|  |  | Short Term Loans | 90000 | 60000 | Cash |
| 66000 | 122000 | Creditors | 136000 | 52000 | Debtors |
|  |  |  | 18000 | 14000 | Investment |
|  |  |  | 8000 | 12000 | Capture papers |
|  |  |  | 11000 | 2000 | Inventory |
|  |  |  | 263000 | 140000 | Total Current Assets |
|  |  | Long Term Liabilities |  |  | Fixed Assets |
| 100000 | 180000 | Long Term Loans | 90000 | 140000 | Lands |
| 166000 | 302000 | Total Liabilities | 200000 | 200000 | Buildings |
|  |  | Owners Equity | 21000 | 11000 | Machinery and equipment |
| 553000 | 153000 | Capital | 386000 | 136000 | Cars |
| 241000 | 172000 | Retained Earnings | 697000 | 487000 | Total Fixed Assets |
| 794000 | 325000 | Total Owners Equity |  |  |  |
| 960000 | 627000 | Total liabilities and Owners Equity | 960000 | 627000 | Total Assets |

**Additional information :**

1-Sold to land at its book value.

2-Interest and taxes paid in cash.

3-New cars were purchased costing 332000، and other cars were sold during the financial period costing 82000،and they were sold at 95000dinars in cash.

**Required : Prepare The cash flow statement of method Direct**

**Answer :**

**1)Find the change in cash and cash equivalents :**

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** | **2015** | **2016** | **Change** |
| **Cash** | **60000** | **90000** | **30000** |
| **Investment** | **14000** | **18000** | **4000** |
| **The balance** | **-** | **-** | **34000** |

**2)Monitor changes in other balance sheet items :**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Change** | **2016** | **2015** | **Liabilities and Owners equity** | **Change** | **2016** | **2015** | **Assets** |
|  |  |  | **Current Liabilities** |  |  |  | **Current Assets** |
|  |  |  | **Short Term Loans** |  |  |  |  |
| **(56000)** | **66000** | **122000** | **Creditors** | **84000** | **136000** | **52000** | **Debtors** |
|  |  |  |  | **(4000)** | **8000** | **12000** | **Capture papers** |
|  |  |  |  | **9000** | **11000** | **2000** | **Inventory** |
|  |  |  |  | **123000** | **263000** | **140000** | **Total Current Assets** |
|  |  |  | **Long Term Liabilities** |  |  |  | **Fixed Assets** |
| **(80000)** | **100000** | **180000** | **Long Term Loans** | **(5000)** | **90000** | **140000** | **Lands** |
| **(136000)** | **166000** | **302000** | **Total Liabilities** | **-** | **200000** | **200000** | **Buildings** |
|  |  |  | **Owners Equity** | **10000** | **21000** | **11000** | **Machinery and equipment** |
| **400000** | **553000** | **153000** | **Capital** | **250000** | **386000** | **136000** | **Cars** |
| **69000** | **241000** | **172000** | **Retained Earnings** | **210000** | **697000** | **487000** | **Total Fixed Assets** |
| **469000** | **794000** | **325000** | **Total Owners Equity** |  |  |  |  |
|  | **960000** | **627000** | **Total liabilities and Owners Equity** |  | **960000** | **627000** | **Total Assets** |

**3)Calculation of cash flows from operating activities :**

**Direct method :**

**Cash received from customers=Sales - Increase in Debtors**

**=1100000- 84000 = 1016000**

**Cash paid to suppliers =Cost of sales + Increase in inventory +Decrease in Creditor**

**=575000+9000+56000 = 640000**

**Cash paid for operating expenses= operating expenses- Decrease in Capture papers**

**= 321000-4000=31700**

|  |  |  |  |
| --- | --- | --- | --- |
| **Details** |  | **Partial** | **Total** |
| **cash flows from operating activities:** |  |  |  |
| **Cash inflows:** |  |  |  |
| **Cash received from customers** |  | **1016000** |  |
| **Cash outflows:** |  |  |  |
| **-Cash paid to suppliers** | **(640000)** |  |  |
| **-Cash paid for operating expenses** | **(317000)** |  |  |
| **-Cash interest paid** | **(25000)** |  |  |
| **-Cash taxes paid** | **(51000)** |  |  |
|  |  | **(1032000)** |  |
| **Net cash flows from operating activities** |  |  | **(17000)** |
| **cash flows from investing activities:** |  |  |  |
| **Cash inflows:** |  |  |  |
| **Sale of land** | **5000** |  |  |
| **Sale of cars** | **95000** |  |  |
|  |  | **100000** |  |
| **Cash outflows:** |  |  |  |
| **Buy cars** |  | **(332000)** |  |
| **Net cash flows from investing activities** |  |  | **(232000)** |
| **cash flows from financing activities:** |  |  |  |
| **Cash inflows:** |  |  |  |
| **Issue of new shares(capital)** |  | **400000** |  |
| **Cash outflows:** |  |  |  |
| **Debt repayment** | **80000** |  |  |
| **Dividend(net income-retained earning)** | **105000** |  |  |
|  |  | **(185000)** |  |
| **Net cash flows from financing activities:** |  |  | **215000** |
| **Total net cash flows from activities (change in cash)** |  |  | **34000** |
| **+First Term Cash** |  |  | **(25000)** |
| **Last Term Cash** |  |  | **9000** |

**:Quastion الأسئلة**

1**-تكلم بالتفصيل عن قائمة التدفقات النقدية ؟**

**Talk about in detail the Cash flow statement?**

**2-وضح أهمية عنصر النقدية ؟**

**Explain The importance of the cash component?**