



**Financial Literacy 360 Degree  
endeavour for Learners**

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## MODULE : 4

This module explains the subject matter in user friendly language with a practical approach. Each module is a mix of theory, practical scenarios and videos. A set of questions and activities will help learners to test their understanding of the subject matter.

After completion of each module, you are advised to submit your feedback and suggestions as it will help us to improve and increase the potential learning ratio.

**MODULE: 4**

**PART: 1**

CV

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## Financial Activities

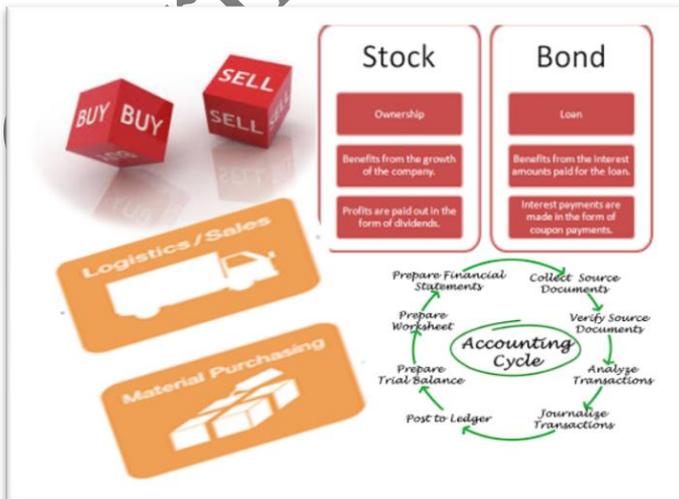
Activities that an organization undertakes to achieve their economic goals and objectives are called financial activities. As per Investopedia, any transaction or initiative undertaken by an organization to fulfill their economic goals is known as financial activity. Precisely, any activity related to movement of money such as cash inflow and cash outflow is defined as financial activity.



Financial activities include monetary activities such as:

- Buying and selling goods/services/ assets
- Organizing and maintaining accounts
- Issuing stocks/bonds
- Arranging loans

As mentioned above, financial activities include sources of cash inflows and outflows, which are reported in the financial statement under the section called cash flow statement.



## Cash flow -Inflows and Outflows

Cash flow is a statement that shows movement of cash in an organization. The terms cash inflow / outflow refers to the flow of cash into and out of an organization. Therefore cash inflows means receipts of cash while cash outflows to payments or disbursements.

Cash inflows are presented in positive figures and outflows in negative.



## **Cash inflows and outflows are classified in three activities**

### **Operating activities -**

Amount of cash an organization receives from its core business such as manufacturing selling product, acquisition of inventories and supplies, payments of accounts to suppliers and others. In short operating activities include current asset and current liabilities.

### **Investing activities -**

Organization puts certain amount of cash for long term purposes such as plant, property, machines/equipments, long term securities etc. In general investing activities involve buying and selling of fixed assets and investments.

## Financing activities -

These activities refer to investments made by owners such as bank loan and other long term payables. In short financing activities shows impact of all transactions with shareholders the borrowings/ repaying transactions with lenders etc.



## Cash flow Statement

This statement presents aggregate data related to cash inflows received by an organization from its operations and external investment sources. It also includes cash outflows which are paid for business activities and investment in a specific period.

Along with a receipts and payments, cash flow statement provides insights into future income needs. An example of the cash flow statement is shown below:

|     | A   | B              | C                | E              | F                  | G                | H              | I              | J               | K | L |  |
|-----|---|----------------|------------------|----------------|--------------------|------------------|----------------|----------------|-----------------|---|---|--|
| 1   | © Corporate Finance Institute. All rights reserved. |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 2   | Brick 'n' Mortar Co Model                           |                |                  |                | Historical Results |                  |                |                | Forecast Period |   |   |  |
|     | 2014  | 2015           | 2016             | 2017           | 2018               | 2019             | 2020           | 2021           |                 |   |   |  |
| 103 | <b>Cash Flow Statement</b>                          |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 104 | <b>Cash Flow Statement</b>                          |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 105 | <b>Cash from Operating Activities</b>               |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 106 | Net Earnings  | 4,496          | 8,071            | 10,161         | 10,706             | 19,201           | 23,910         | 28,510         | 32,118          |   |   |  |
| 108 | Plus: Depreciation & Amortization                   | 10,195         | 9,635            | 9,295          | 9,006              | 4,203            | 4,512          | 4,760          | 4,658           |   |   |  |
| 109 | Less: Changes in Working Capital                    | 953            | 434              | 506            | 463                | 2,477            | 147            | 1,079          | 1,077           |   |   |  |
| 110 | <b>Cash from Operations</b>                         | <b>13,677</b>  | <b>17,272</b>    | <b>18,921</b>  | <b>19,248</b>      | <b>20,926</b>    | <b>28,274</b>  | <b>32,190</b>  | <b>35,998</b>   |   |   |  |
| 111 | <b>Cash from Investing Activities</b>               |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 112 | Investments in Property & Equipment                 | (8,401)        | (8,401)          | (8,401)        | (8,401)            | (5,750)          | (5,750)        | (5,750)        | (5,750)         |   |   |  |
| 114 | Investments in Businesses                           | -              | (150,000)        | -              | -                  | (370,000)        | -              | -              | -               |   |   |  |
| 115 | <b>Cash from Investing</b>                          | <b>(8,401)</b> | <b>(158,401)</b> | <b>(8,401)</b> | <b>(8,401)</b>     | <b>(375,750)</b> | <b>(5,750)</b> | <b>(5,750)</b> | <b>(5,750)</b>  |   |   |  |
| 116 | <b>Cash from Financing Activities</b>               |                |                  |                |                    |                  |                |                |                 |   |   |  |
| 117 | Issuance (repayment) of debt                        | -              | (11,201)         | -              | -                  | -                | -              | -              | -               |   |   |  |
| 119 | Issuance (repayment) of equity                      | -              | 200,000          | -              | -                  | 500,000          | -              | -              | -               |   |   |  |
| 120 | Payment of Dividends                                | -              | -                | -              | -                  | -                | -              | -              | -               |   |   |  |
| 121 | <b>Cash from Financing</b>                          | <b>-</b>       | <b>188,799</b>   | <b>-</b>       | <b>-</b>           | <b>500,000</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>        |   |   |  |
| 122 | Net Increase (decrease) in Cash                     | 5,277          | 47,671           | 10,520         | 10,847             | 145,176          | 22,524         | 26,440         | 30,248          |   |   |  |
| 124 | Opening Cash Balance                                | 37,573         | 42,850           | 90,521         | 101,041            | 111,889          | 257,065        | 279,589        | 306,030         |   |   |  |
| 125 | <b>Closing Cash Balance</b>                         | <b>42,850</b>  | <b>90,521</b>    | <b>101,041</b> | <b>111,889</b>     | <b>257,065</b>   | <b>279,589</b> | <b>306,030</b> | <b>336,278</b>  |   |   |  |
| 126 |   |                |                  |                |                    |                  |                |                |                 |   |   |  |

## **How to prepare Cash flow Statement?**

As mentioned above, cash flow statement is one of the financial statements that indicates the sources of cash (inflow) and uses of cash (outflow). There are two methods used to prepare cash flow statement i.e. direct and indirect method. Indirect method is commonly in practice among organizations.

It is to be noted that there is not much difference in these methods except the presentation. Both the methods capture three sections such as operating, investing and financing activities with the same end result. In the direct method, cash flows from operating activities include the amounts for lines such as cash from customers and cash paid to the suppliers. In the indirect method, similar lines will be presented as net income followed by the

adjustments needed to convert the total net income to the cash amount from operating activities. Therefore the reader will come to know about the cash received from the daily operations activities. Following tables represent direct and indirect method of Cash flow statement.

**Company Name XYZ**  
**Cash flow Statement-indirect method**  
**for the year ended .....**

| <u>Line Item</u>                            | <u>Derivation</u>                                |
|---|--|
| <b>Cash flows from operating activities</b> |  |
| Net income                                  | From the net income line on the income statement |
| Adjustments for:                            |  |
| Depreciation and amortization               | From the corresponding line items in the income  |

|   |   |
|---|---|
|   | statement   |
| Provision for losses on accounts receivable | From the change in the allowance for doubtful accounts in the period  |
| Gain/loss on sale of facility               | From the gain/loss accounts in the income statement                   |
| Increase/decrease in trade receivables      | Change in trade receivables during the period, from the balance sheet |
| Increase/decrease in inventories            | Change in inventories during the period, from the balance sheet       |
| Increase/decrease in trade payables         | Change in trade payables during the period, from the balance sheet    |
| <i>Cash generated from operations</i>       | Summary of the preceding items in this section                        |
|   |   |

|  |  |
|--|--|
| <b>Cash flows from investing activities</b>  |  |
| Purchase of fixed assets                     | Itemized in the fixed asset accounts during the period                                     |
| Proceeds from sale of fixed assets           | Itemized in the fixed asset accounts during the period                                     |
| <i>Net cash used in investing activities</i> | Summary of the preceding items in this section   |
|  |  |
| <b>Cash flows from financing activities</b>  |  |
| Proceeds from issuance of common stock       | Net increase in the common stock and additional paid-in capital accounts during the period |
| Proceeds from issuance of long-term debt     | Itemized in the long-term debt account during the period                                   |

|  |   |
|--|---|
| Dividends paid                                 | Itemized in the retained earnings account during the period |
| <i>Net cash used in financing activities</i>   | Summary of the preceding items in this section              |
|  |   |
| <b>Net change in cash and cash equivalents</b> | Summary of all preceding subtotals                          |

**Company Name XYZ**  
**Cash flow Statement-direct method**  
**for the year ended .....**

| <u>Line Item</u>                            | <u>Derivation</u>            |
|---|------------------------------|
| <b>Cash flows from operating activities</b> |                              |
| Cash receipts                               | Summary of the cash receipts |

|   |  |
|---|--|
| from customers                              | journal for the period   |
| Cash paid to suppliers                      | Summary of the cash disbursements journal for the period (less the financing payments noted below) |
| Cash paid to employees                      | Summary of the payroll journal for the period  |
| <i>Cash generated from operations</i>       | Summary of the preceding items in this section   |
|   |  |
| Interest paid                               | Itemized in the cash disbursements journal   |
| Income taxes paid                           | Itemized in the cash disbursements journal   |
| <i>Net cash from operating activities</i>   | Summary of the preceding items in this section   |
|   |  |
| <b>Cash flows from investing activities</b> |  |

|  |  |
|--|--|
| Purchase of fixed assets                     | Itemized in the fixed asset accounts during the period                                     |
| Proceeds from sale of fixed assets           | Itemized in the fixed asset accounts during the period                                     |
| <i>Net cash used in investing activities</i> | Summary of the preceding items in this section   |
|  |  |
| <b>Cash flows from financing activities</b>  |  |
| Proceeds from issuance of common stock       | Net increase in the common stock and additional paid-in capital accounts during the period |
| Proceeds from issuance of long-term debt     | Itemized in the long-term debt account during the period                                   |
| Principal payment under capital leases       | Itemized in the capital leases liability account during the period                         |

|  |   |
|--|---|
| Dividends paid                                 | Itemized in the retained earnings account during the period |
| <i>Net cash used in financing activities</i>   | Summary of the preceding items in this section              |
|  |   |
| <b>Net change in cash and cash equivalents</b> | Summary of all preceding subtotals                          |

Source: [www.accountingtools.com](http://www.accountingtools.com)

### Cash flow Statement Interpretation

For a growing and healthy organization Cash flow statement should represent:

- Positive cash flow from operating activities
- Negative cash flow from investing activities
- Positive/ negative cash flow from financing activities

## An Example of Cash flow statement:

### ALX Company Cash flow Statement

#### For the Year Ended 200X (In INR Lacs)

##### CASH FLOWS FROM OPERATING ACTIVITIES

|  |               |
|--|---------------|
| Net income   | 12,950        |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |               |
| Depreciation on fixed assets   | 2,000         |
| (Increase) decrease in current assets:   |               |
| Accounts receivable  | (300)         |
| Inventory  | (39,800)      |
| Prepaid expenses   | (1,000)       |
| Increase (decrease) in current liabilities:  |               |
| Accounts payable   | 49,000        |
| Accrue expenses and unearned revenues  | 1,450         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                     | <u>24,300</u> |

##### CASH FLOWS FROM INVESTING ACTIVITIES

|  |                  |
|--|------------------|
| Purchase of property and equipment           | <u>(101,000)</u> |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b> | <u>(101,000)</u> |

##### CASH FLOWS FROM FINANCING ACTIVITIES

|   |                |
|---|----------------|
| Proceeds from line of credit                            | -              |
| Payments on line of credit                              | 10,000         |
| Proceeds from long-term debt                            | 99,500         |
| Payments on long-term debt                              | -              |
| <b>NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES</b> | <u>109,500</u> |
| <b>NET INCREASE (DECREASE) IN CASH</b>                  | <u>32,800</u>  |

|                            |               |
|----------------------------|---------------|
| BEGINNING CASH BALANCE     | <u>-</u>      |
| <b>ENDING CASH BALANCE</b> | <u>32,800</u> |

Now it is understood that for any cash flow statement inputs come from income statement and balance sheet.

- Income statement will appraise about the revenue and expenses.
- Balance sheet will provide the information of assets and liabilities.
- And also the statement of changes in equity if any.

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## Evaluate your learning

1. What do you understand by financial activities?
2. What is the purpose of cash flow statement?
3. Cash flows are inflows and outflows of cash. (State True/ False)
4. Categorize the following activities as per the given table:

Loss on sale of securities, net increase in deposits, net increase in loss, dividends paid, building depreciation, decrease in sundry creditors, purchase of machinery, issue of shares, cash received on sale of investment

| Operating Activities | Investing Activities | Financing Activities |
|----------------------|----------------------|----------------------|
|                      |                      |                      |

5. Identify cash inflow and cash outflow activities :

Share sales, Repayment of long term borrowings, Partial payment of loans, Commission & fees, Income tax, Manufacturing expenses, Shareholders dividends, Investment in securities, Issuance of stocks, Payments to suppliers, Lenders payment, Bank overdraft, refund of income tax

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