

CHAPTER (5)

Cash Flow Analysis

تحليل التدفق النقدي

❖ Statement of Cash Flows (Meaning)

كشف التدفق النقدي (المعنى)

• Relevance of Cash صلة النقد

1. A Cash flow statement deals with the inflow and outflow of cash between two balance sheet dates.

كشف التدفق النقدي يتعامل مع التدفق النقدي الداخل والخارج بين تاريخين للميزانية العمومية

2. Cash flow statement aims at listing the various items which brings about changes between two balance sheet dates and therefore any items which affects the business cash either by increasing or decreasing it is included in this statement.

يهدف كشف التدفق النقدي الى ترتيب فقرات مختلفة تسبب التغيرات بين تاريخين للميزانية العمومية وعليه فان اي فقرات تؤثر على النقد اما بزيادته او نقصانه ستكون موجودة في هذا الكشف .

4. Cash flow statement indicates simply cash receipts and cash payments and does not take into consideration other current assets.

يشير بيان التدفقات النقدية ببساطة إلى المقبوضات النقدية والمدفوعات النقدية ولا يأخذ في الاعتبار الأصول المتداولة الأخرى .

5. Cash flow statement highlights the changes in cash and cash equivalents during the course of the year due to various cash flows.

كشف التدفق النقدي يسلط الضوء على التغيرات في النقد والنقد المعدل خلال العام بسبب مختلف التدفقات النقدية.

• Objectives of Cash Flow Statement

أهداف كشف التدفق النقدي

1. Efficient Cash Management

كفاءة إدارة النقد

i. To manage the cash resources in such a way that adequate cash is available for meeting the expenses.

ادارة مصادر النقد بالطريقة التي توفر النقد الكافي للمصاريف

ii. To plan and co-ordinate the financial operations of the business.

لتخطيط وتنسيق العمليات التشغيلية المالية للمشروع التجاري

2. Internal Financial Management

الإدارة المالية الداخلية

To provide a clear picture of cash flows from operations.

لتوفير صورة واضحة للتدفقات النقدية للعمليات التشغيلية

3. Projected Cash Flow

التدفق النقدي المتوقع

To help management to know the projected cash inflows and cash outflows.

لمساعدة الادارة في معرفة التدفقات النقدية الداخلة والخارجة المتوقعة

4. Tool of Analysis

أداة التحليل

To act as an effective analysis tool for short-term decisions.

لتمثل اداة تحليل فعالة للقرارات قصيرة الاجل

5. Success or Failure of Cash Planning

نجاح او فشل التخطيط للنقد

To help management to know the success or failure in cash management by comparison of actual and budgeted cash flow statements.

لمساعدة الادارة في معرفة نجاح او فشل ادارة النقد من خلال مقارنة كشف التدفق النقدي الفعلي والمخطط

❖ Constructing the Cash Flow Statement

إنشاء كشف التدفق النقدي

1. The Cash Flow Statement can be prepared on the same pattern on which a Funds Flow Statement is prepared.

كشف التدفق النقدي يمكن اعداده بنفس النمط الذي اعد فيه كشف تدفق الاموال

2. Sources, which generate cash are termed as "Inflows of cash" while the applications of the same are termed as "Outflows of cash".
المصادر التي تولد النقد تسمى (التدفق الداخل للنقد) بينما الاستخدامات لنفس الشيء تسمى (التدفق الخارج للنقد)

3. The sources of cash inflows and cash outflows are described as follows :
مصادر التدفقات النقدية الداخلة والخارجة يتم وصفها كالآتي :

(A) Sources of Cash مصادر النقد

• The following are the sources of cash :

a) internal Sources المصادر الداخلية

• Cash generated from operations is the internal source of generating cash inflows.

النقد الناتج عن العمليات التشغيلية هو المصدر الداخلي للتدفق النقدي الداخلي الناتج

• The net profit as shown by the Profit and Loss Account is the starting point for the computation of the cash from operations.

صافي الربح كما مبين في حساب الارباح والخسائر هو نقطة البداية لاحتساب النقد من العمليات التشغيلية

• The net profit shown by the Profit and Loss Account is not equal to the cash from operations as several non- cash items are taken into consideration while computing the same. Therefore, the net profit will have to be adjusted for noncash items to find out the cash from operations.

صافي الربح الظاهر في حساب الارباح والخسائر لا يساوي النقد من العمليات التشغيلية فالعديد من الفقرات غير النقدية تؤخذ بنظر الاعتبار عند احتساب نفس الشيء . لذلك فان صافي الربح سيتم تعديله بالفقرات غير النقدية لاجاد النقد من العمليات التشغيلية .

• Some of these items are as follows :

• Special Topics مواضيع خاصة

1. Depreciation الإندثار

Depreciation is a non- cash item, which reduces the net profit but does not result in any cash outflows. Hence, the amount of depreciation will have to be added back in the amount of profit.

2. Loss on Sale of Fixed Assets خسارة بيع الموجودات الثابتة

a) Sometimes, fixed assets like land and building, plant and machinery, furniture etc. are sold out and the loss on their sale is debited to the Profit and Loss Account.

b) The amount of loss does not result into cash outflows and therefore is added back in the amount of net profit.

3. Creation of Reserves تكوين احتياطات

If profits for the year have been arrived at after charging transfers to reserves, such transfers should be added back to the profits.

4. Writing off the Intangible Assets شطب الموجودات المعنوية

a) Intangible assets like goodwill, preliminary expenses etc. are normally written off against profits.

b) Such writing off the assets reduces the net profits but do not result in cash outflows. Therefore, this item should be added back in the amount of net profits.

5. Gains on Sale of Fixed Assets مكاسب بيع الموجودات الثابتة

Fixed assets may have been sold at a gain. Such item should be deducted from the net profit, as it is a non- cash item.

(b) External Sources المصادر الخارجية

1. issue of New Shares إصدار اسهم جديدة

If new shares are issued for cash, the net proceeds i.e. after deducting the issue expenses will be treated as cash inflows.

2. Raising of Term Loans حصول قروض طويلة الأجل

If new term loans are raised through debentures or otherwise, such term loans are the sources of cash inflows.

3. Purchase of Fixed Assets شراء موجودات ثابتة

- a) If fixed assets are purchased, it will be an outflow of cash.
b) However, if they are purchased on deferred payment System, it should be shown as a separate source of cash to the extent of deferred credit.
c) However, the cost of machinery purchased will be shown as an application of cash.

4. Short-term Borrowings اقتراض قصير الأجل

Short-term borrowings etc. from banks increase cash available and they have to be shown separately under this head.

5. Sale of Fixed Assets, Investments etc.: بيع موجودات ثابتة ، استثمارات

Such sale results in generation of cash and therefore is a source of cash generation.

(B) Application of Cash استخدام النقد

The following items result in applications of cash or cash outflows :

a) Purchase of Fixed Assets شراء موجودات ثابتة

The purchases of fixed assets will result in application of cash and will be shown as cash outflows.

b) Payment of Long-term Loans دفع قروض طويلة الأجل

The payments of term loans, debentures etc. will be treated as cash outflows as the available cash is reduced.

c) Redemption of Preference Shares and Buy Back of Equity Shares

التضحية باسهم ممتازة وشراء اسهم ملكية

Redemption of Preference Shares and Buy Back of Equity Shares result in reduction in availability of cash and hence it is an outflow.

d) Payment of Income Tax دفع ضريبة دخل

This is also an application of cash.

e) Payment of Dividend دفع توزيعات أرباح

This will also reduce the availability of cash and hence it is an outflow.

f) Decrease in Unsecured Loans, Deposits etc. نقص في القروض والودائع غير المضمونة

The decrease in these liabilities indicates the repayment of these liabilities and hence it is an outflow of cash.

g) Loss from Operations خسارة من العمليات

Cash generated from operations is a source of cash while, any loss from operations is an outflow of cash as the available cash is reduced.

Format of Cash Flow Statement:

Cash Flow Statement For The Year Ended on

Particulars	Amount(IQD)
Opening Balance : Cash Bank	
Add : Sources of Cash :	
<input type="checkbox"/> Issue of Shares	
<input type="checkbox"/> Raising of Long-term Loans	
<input type="checkbox"/> Sale of Fixed Assets	
<input type="checkbox"/> Short-term Borrowings	
<input type="checkbox"/> Cash from Operations	
Total Cash Available (1)	

Less : Applications of Cash :	
<input type="checkbox"/> Redemption of Preference Shares	
<input type="checkbox"/> Buy Back of Equity Shares	
<input type="checkbox"/> Redemption of Long-term Loans	
<input type="checkbox"/> Purchase of Fixed Assets	
<input type="checkbox"/> Decrease in Deferred Payment Liabilities	
<input type="checkbox"/> Loss from Operations	
<input type="checkbox"/> Income Tax Paid	
<input type="checkbox"/> Dividends Paid	
<input type="checkbox"/> Decrease in Unsecured Loans, Deposits etc.	
Total Applications (2)	
Closing Balance : Cash Bank	

• **Methods of Cash Flow Statement** طرائق كشف التدفق النقدي

(a) Direct Method الطريقة المباشرة

- 1) Under this method, major classes of gross cash receipts and gross cash payments are obtained from the records for determination of cash flow from operating activities.
- 2) Various items in the P & L Account are adjusted for changes in related items in current assets and current liabilities in order to decide P & L Account on cash basis.
- 3) The balancing figure in P & L Account reveals cash from operating activities.

بموجب هذه الطريقة ، يتم الحصول على البنود الرئيسية لاجمالي الايرادات النقدية والمدفوعات النقدية الاجمالية من السجلات لتحديد التدفق النقدي من الانشطة التشغيلية.

Format of Direct Method

Particulars	IQD
Cash Sales	
Add : Cash collection from Debtors	
Gross Cash Receipts from Operations	
Less : Cash Operating Expenses	
Net Cash Generated by Operations	

(b) Indirect Method الطريقة غير المباشرة

1) Under this method, cash from operating activities is calculated by adjusting net profit and loss instead of individual items, disclosed in the P & L Account.

بموجب هذه الطريقة ، يتم احتساب النقد من الأنشطة التشغيلية بتعديل صافي الربح والخسارة بدلا من البنود الفردية ، ويتم الإفصاح عنها في حساب الارباح والخسائر

2) Net Profit and Loss is adjusted in the light of changes during the period.

3) After ascertaining Net Operating Profit, adjustments regarding changes in current assets and current liabilities are made as per the following table :

Adjustment of Changes in Current Assets and Liabilities :

Current Assets and Current Liabilities	Adjustments to be made to Net Profit	
	Add	Deduct
Trade Debtors	Decrease	Increase
Stock	Decrease	Increase
Prepaid Expenses	Decrease	Increase
Trade Creditors	Increase	Decrease
Expenses Payable	Increase	Decrease

❖ **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

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

c) Useful in Capital Budgeting Decisions مفيدة في قرارات الموازنة الرأس مالية

d) Focusing on Trend of Movement التركيز على اتجاه الحركة

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

f) Useful to Financial Analyst مفيدة للمحلل المالي

g) Movement of Cash حركة النقدية

Exercise No. 1

Following are the summarized Balance Sheets of XYZ Co. Ltd. as on 31-3- 2018 and 31-3-2019.

Liabilities	31-3-2018	31-3-2019	Assets	31-3-2018	31-3-2019
	IQD	IQD		IQD	IQD
Share Capital	200,000	250,000	Land & Building	200,000	190,000
General Reserve	50,000	60,000	Machinery	150,000	169,000
Profit & Loss A/c	30,500	30,600	Stock	100,000	74,000
Bank Loan (Long-term)	70,000	-	Debtors	80,000	64,200
Sundry Creditors	150,000	135,200	Cash	500	800
Provision for Taxation	30,000	35,000	Bank	-	7,800
			Goodwill	-	5,000
	530,000	510,800		530,500	510,800

Additional information :

During the year ended 31 -3-2019.

1. Dividend of IQD 23,000 was paid
2. Assets of another company were purchased for a consideration of IQD 50,000 payable in shares. The following assets were purchased : Stock IQD 20,000; Machinery IQD 25,000; Goodwill IQD 5,000.
3. Machinery was further purchased for IQD 8,000
4. Depreciation written-off on machinery IQD 12,000 income-tax provided during the year IQD 33,000 loss on sale of machinery IQD 200 was written off to general reserve.

Requirement: Prepare a Cash Flow Statement.

Solution :

Working Notes :

(1) Dr. Machinery A/c		Cr.	
Particulars	IQD	Particulars	IQD
To Balance b/d	150,000	By General Reserve(Loss on Sale)	200
To Share Capital (Purchase by Issue of Share)	25,000	By Cash (Sale) - (Balancing Figure)	1,800
To Bank - (Purchase)	8,000	By Depreciation	12,000
		By Balance c/d	169,000
	183,000		183,000

(2) Dr. General Reserve A/c		Cr.	
Particulars	IQD	Particulars	IQD
To Machinery A/c	200	By Balance b/d	50,000
To Balance c/d	60,000	By P & LA/c - (Balancing Figure)	10,200
	60,200		60,200

(3) Dr. Adjusted P & L A/c		Cr.	
Particulars	IQD	Particulars	IQD
To Dividend	23,000	By Balance b/d	30,500
To Transfer to General Reserve	10,200	By Funds from Operation	55,300
To Depreciation on Machinery	12,000	(Balancing Figure)	
To Depreciation on Land and Building	10,000		
To Balance c/d	30,600		
	85,800		85,800

(4) Dr. Land and Building A/c		Cr.	
Particulars	IQD	Particulars	IQD
To Balance b/d	200,000	By Depreciation on Building	10,000
		(Balancing Figure)	
		By Balance c/d	190,000
	200,000		200,000

Cash Flow Statement

Particulars	IQD	IQD
Opening Cash and Bank Balance (1-4-2018)		500
• Funds from Operations	55,300	
• Decrease In Stock	26,000	
• Purchase of Stock	20,000	
• Realization From Debtors (IQD 80,000 - IQD 64,200)	15,800	
• Provision For Taxation	5,000	
• Sale of Machinery	1,800	123,900
		124,400
Less : Uses of Cash		
▪ Payment of Bank Loan	70,000	
▪ Payment of Dividend	23,000	
▪ Reduction in Sundry Creditor	14,800	
▪ Purchase of Machine For Cash	8,000	115,800
Closing Cash and Bank Balance (31-3-2019)		8,600

Exercise No. 2

The following are the Summarized Balance Sheet of WS Ltd. as on 31-12-2018 and 31-12-2019.

Liabilities	2018 IQD	2019 IQD	Assets	2018 IQD	2019 IQD
Share Capital	300,000	350,000	Land & Building	250,000	240,000
General Reserve	50,000	60,000	Machinery	200,000	209,000
Profit & Loss	40,000	32,000	Stock	100,000	74,000
Bank Loan (Long-term)	70,000	-	Debtors	80,000	60,000
Sundry Creditors	150,000	131,000	Cash	10,000	2,000
Provision for Taxation	30,000	35,000	Bank	-	8,000
			Goodwill	-	15,000
	640,000	608,000		640,000	608,000

Additional Information :

During the year ended 31-12-2019.

1. Dividend of IQD 30,000 was paid.
2. Assets of another company were purchased for a consideration of IQD 50,000 payable in shares. The following Assets were purchased Stock IQD 20,000; Goodwill IQD 15,000. Machinery 15,000.
3. Machinery was further purchased for IQD 10,000.
4. Depreciation written off of machinery IQD 2,000.
5. Income Tax provided during the year was IQD 33,000.
6. Loss on sale of Machinery IQD 1,000 was written-off to General Reserve.

Required : prepare the Cash Flow Statement.

Solution :

Working Notes:

(1) Dr.		Machinery A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Balance b/d	200,000	By Depreciation	2,000		
To Share Capital (purchase by issue of share)	15,000	By General Reserve (loss on sale)	1,000		
To Bank (purchase)	10,000	By Bank (balancing figure)	13,000		
		By Balance c/d	209,000		
	225,000		225,000		

(2) Dr.		Adjusted Profit & Loss A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Dividend	30,000	By Balance b/d	40,000		
To Depreciation on Building	10,000	By Funds from Operations	45,000		
To Transfer to General Reserve	11,000				
To Depreciation on Machinery	2,000				
To Balance c/d	32,000				
	85,000		85,000		

(3) Dr.		General Reserve A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Machinery A/c	1,000	By Balance b/d	50,000		
To Balance c/d	60,000	By P & LA/c (Balancing Figure)	11,000		
	61,000		61,000		

(4) Dr.		Land and Building A/c		Cr.	
Particulars	IQD	Particulars	IQD		
To Balance b/d	250,000	By Depreciation on Building (Balancing Figure)	10,000		
		By Balance c/d	240,000		
	250,000		250,000		

Books of M/S Ltd.**Cash Flow Statement for Year Ending 31-12-2018**

	IQD	IQD
Opening Cash Balance as on 2018		10,000
Add : Sources of Cash		
• Sale of Machinery	13,000	
• Decrease In Stock (100000-74000)	26000	
• Purchase of Stock	20000	
• Decrease In Debtors (80000-60000)	20000	
• Provision for taxation (35000-30000)	5000	
• Funds from Operations	45000	129000
		139000
Less : Uses of Cash		
Purchase of Machinery	10,000	
Payment of Dividend	30,000	
Bank - Loan Repaid	70,000	
Decrease In Creditors	19,000	(129,000)
Closing Cash and Bank Balances		
As on 31 -12-2019 (IQD 2,000 + IQD 8,000)		10,000
Particulars		