

TOPIC B: CASH FLOW

MHE5402

ACCOUNTING AND FINANCIAL MANAGEMENT FOR EXECUTIVES

BY ASST.PROF.DR.CHUMPON RODJAM

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NARRATIVE CONTENT

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PREAMBLE

- The financial statements of the business, such as statements of financial position, statements of income and loss, etc., are prepared according to accounting assumptions, accruals, which are the criteria by which the business must record income and accounting expenses when the transaction occurs. Whether cash is received or paid. However, the company still has to prepare financial statements on a cash basis. This is the criterion for preparing financial statements that record income and expenses only when cash is received or paid. i.e. Statement of Cash Flows



DEFINITION OF CASH FLOW STATEMENT

- Cash flow statements represent the acquisition and use of cash. Make investors aware of the liquidity of the business. And where the cash flow in the business is divided into 3 activities.



**Statement of
Cash Flow
from
Operating
Activities
(CFO)**

**Statement of cash
flow from CFI
investment
activities**

**Statement of cash
flow from CFF
sourcing activities**

Cash Flow



CASH FLOW STATEMENT ACTIVITIES

- Operating Activities cash flow statement refers to the main activities that generate income and expenses of the business.
- Investing Activities refers to the acquisition and disposition of long-term assets and other investments that do not affect operations.
- Financing Activities refers to activities that result in changes in transactions on the part of the owner and part of the loan.



STATEMENT OF CASH FLOW FROM OPERATING ACTIVITIES (CFO)

- Operating Activities cash flow refers to cash flow from core activities that generate income and expenses of the business as a result of various items used to calculate profit or loss, reflecting the actual cash from operating activities related to accounts, current assets, current liabilities.



- Examples of items in the statement of cash flow from operating activities

Cash in

- • Cash received from sales of goods and services
- • Cash received from income, fees
- • Cash received from customers or debts paid by customers

Cash outflows

- • Cash payments to sellers of goods and services
- • Cash payments to employees
- • Cash payments to trade creditors

Cash flow from operating activities should be positive. It shows that the business earns and receives in cash.



Sell products Service
revenue, customer
income



(CFO)



Pay for
goods/services, pay
employees, pay trade
payables.



SAMPLE

- **For example**, the company originally had inventories at the beginning of the period of 1,000 baht, at the end of the period there were inventories of 1,500 baht (increased inventories = 500 baht), indicating that the company had paid out 500 baht in cash to make more assets. Therefore, cash paid out causes a decrease in cash flow from operating activities (to be deducted).
- **For example**, the company originally had a trade creditor of 1,300 baht, at the end of the period there were 700 baht of trade creditors (reduced trade creditors = 600 baht), indicating that the company had paid out 600 baht in cash to pay the trade creditors.



STATEMENT OF CASH FLOW FROM CFI INVESTMENT ACTIVITIES

- Means the acquisition and disposition of long-term assets and other investments that do not affect operations. Focus on investment transactions related to accounts, non-current assets, current assets (only related to investments).



Sale of
land/equipment, sale
of investments,
withdrawal of fixed
deposits



**-Statement of
cash flow from
CFI investment
activities**



Buy
land/equipment,
buy investments,
deposit fixed
funds.



○ Examples of items in the statement of cash flow from investment activities

Cash in

- Cash received from the sale of land, buildings and equipment
- Cash received from the sale of long-term capital such as equities, debt instruments
- Cash repaid from advance payments and loans to other parties

Cash outflows

- Cash payments for the purchase of land, buildings and equipment
- Cash paid for long-term capital such as equities, debt instruments
- Cash advance payments and loans to other parties



○ Cash invested

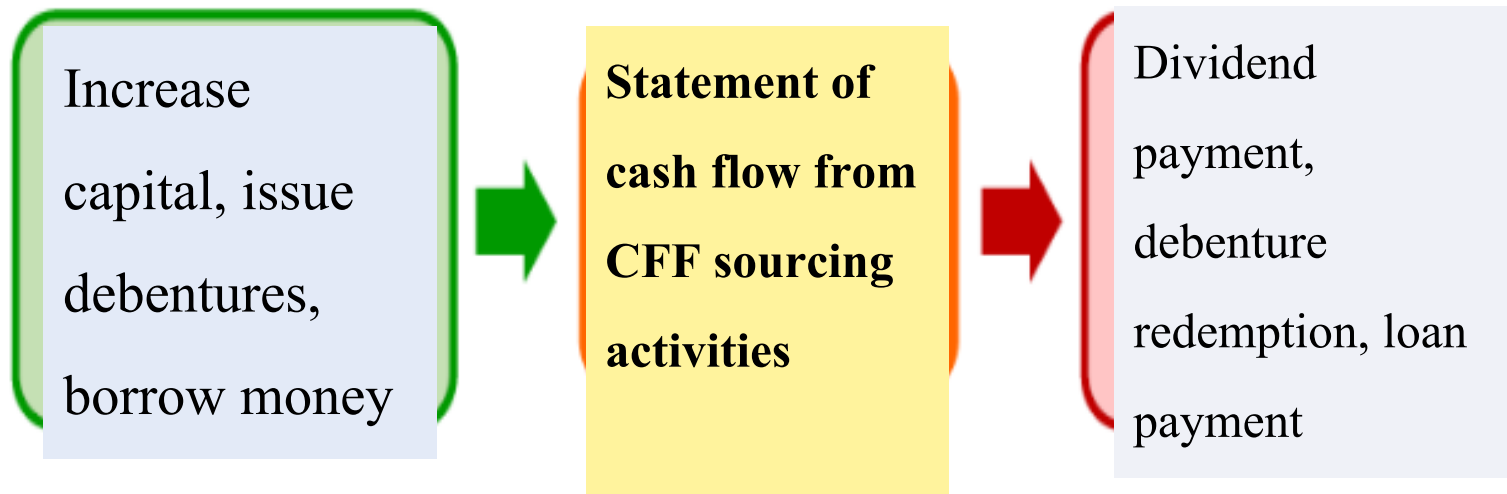
- May invest in current assets (this does not cause the company to grow), such as short-term investments for resting money, investing in non-current assets (expanding production capacity) such as land, buildings and equipment. machine



STATEMENT OF CASH FLOW FROM CFF SOURCING ACTIVITIES

- Means activities that result in changes in transactions on the part of the owner and the part of borrowing, relating to accounts, current liabilities (only in relation to procurement).
Non-current liabilities Equity (Capital)





- Examples of items in the statement of cash flow from sourcing activities

Cash in

- Cash received from capital increase or issuance of capital shares
- Cash received from issuance of debentures
- Cash received from overdrafts, long-term loans

Cash outflows

- Cash dividend payment
- Cash payment for redemption of debentures
- Cash payment of loan payment



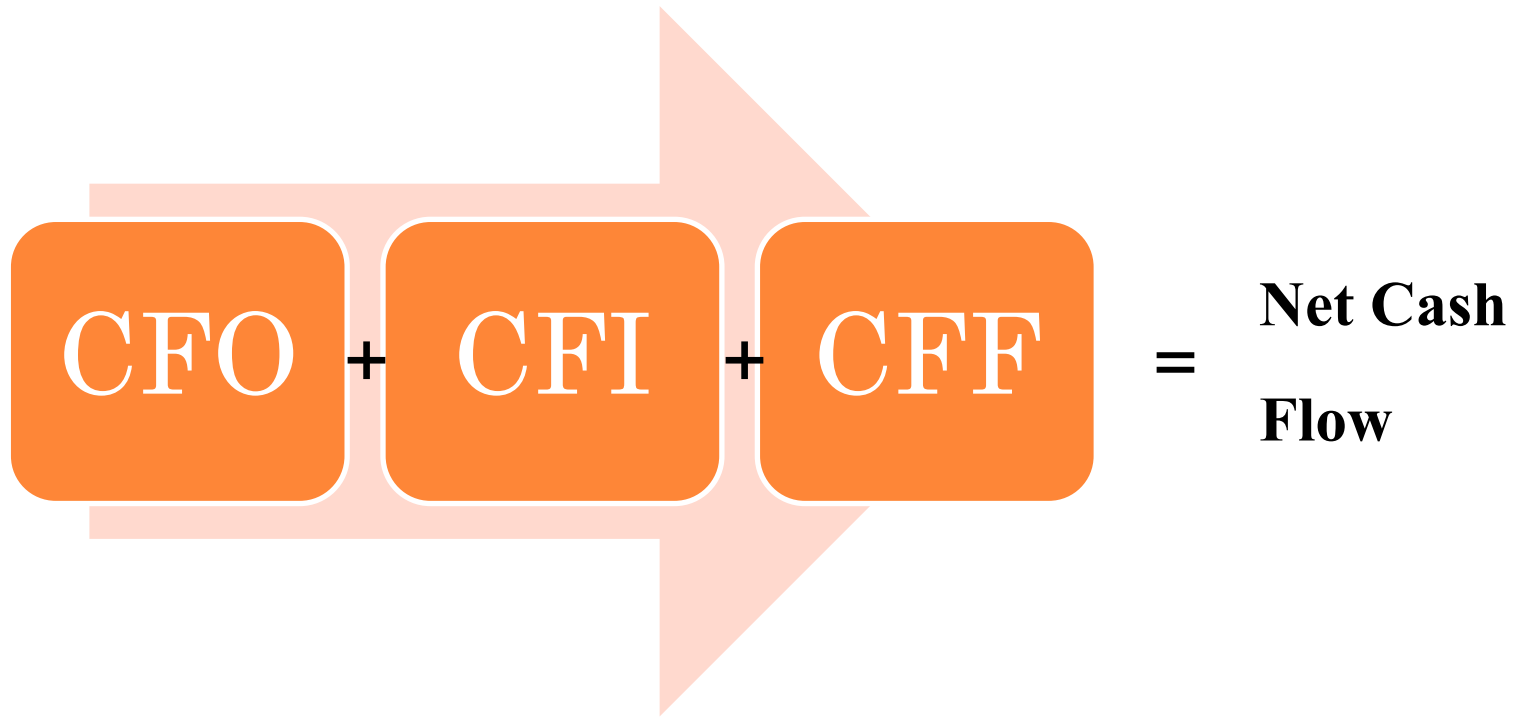
FINANCING

- 1. Borrowing money will be the part that comes from debt. It's more convenient. The number of shares does not increase, there is no dilution effect (i.e., the earnings per share decreases due to the increase in the number of shares), but the disadvantage is that if there are too many borrowings, the business has an increased debt risk.
- 2. Capital increase will be the part that comes from the capital (owner's equity). The advantage is that there is no interest charge, the risk of the business does not increase, but the disadvantage is that there is a dilution effect, the earnings per share will decrease (if the profit is the same).

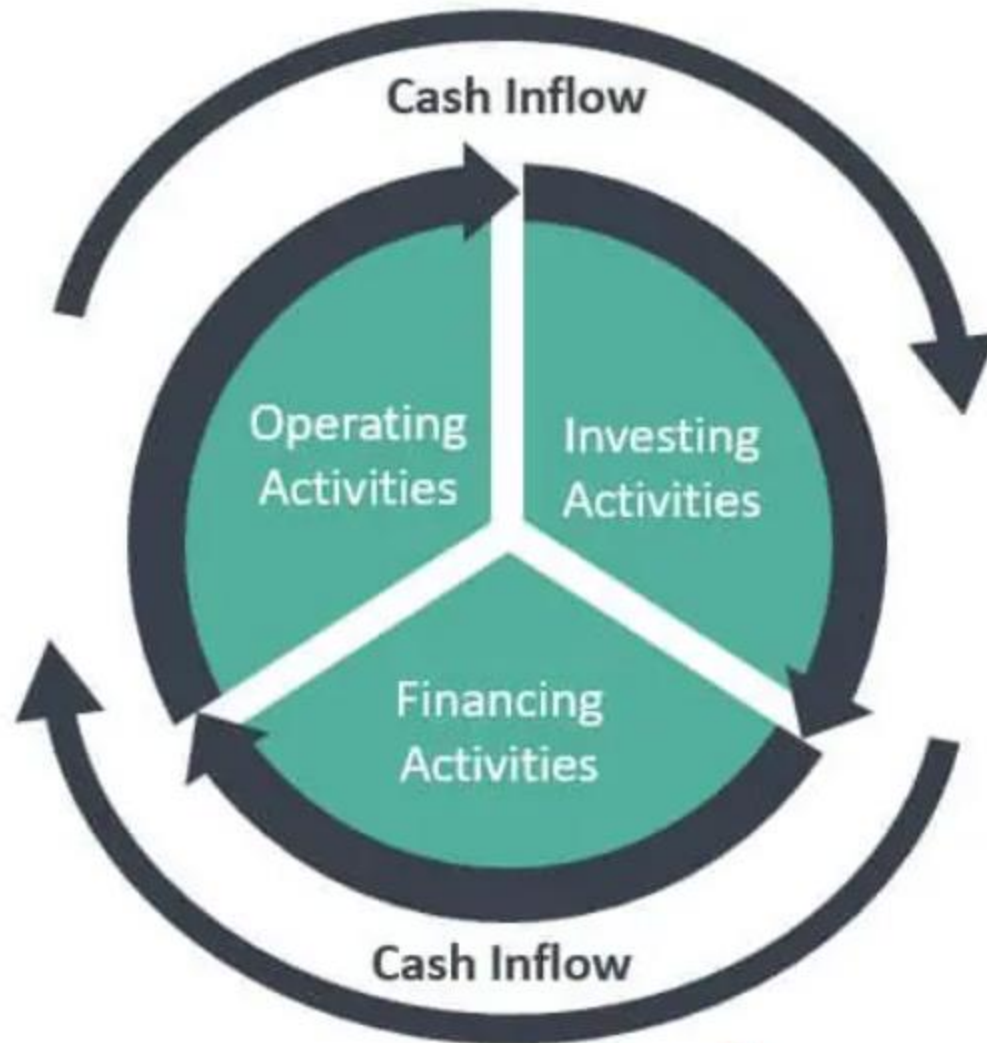
Cash Flow Statement Company XYZ FY Ended 31 Dec 2017

All Figures in USD

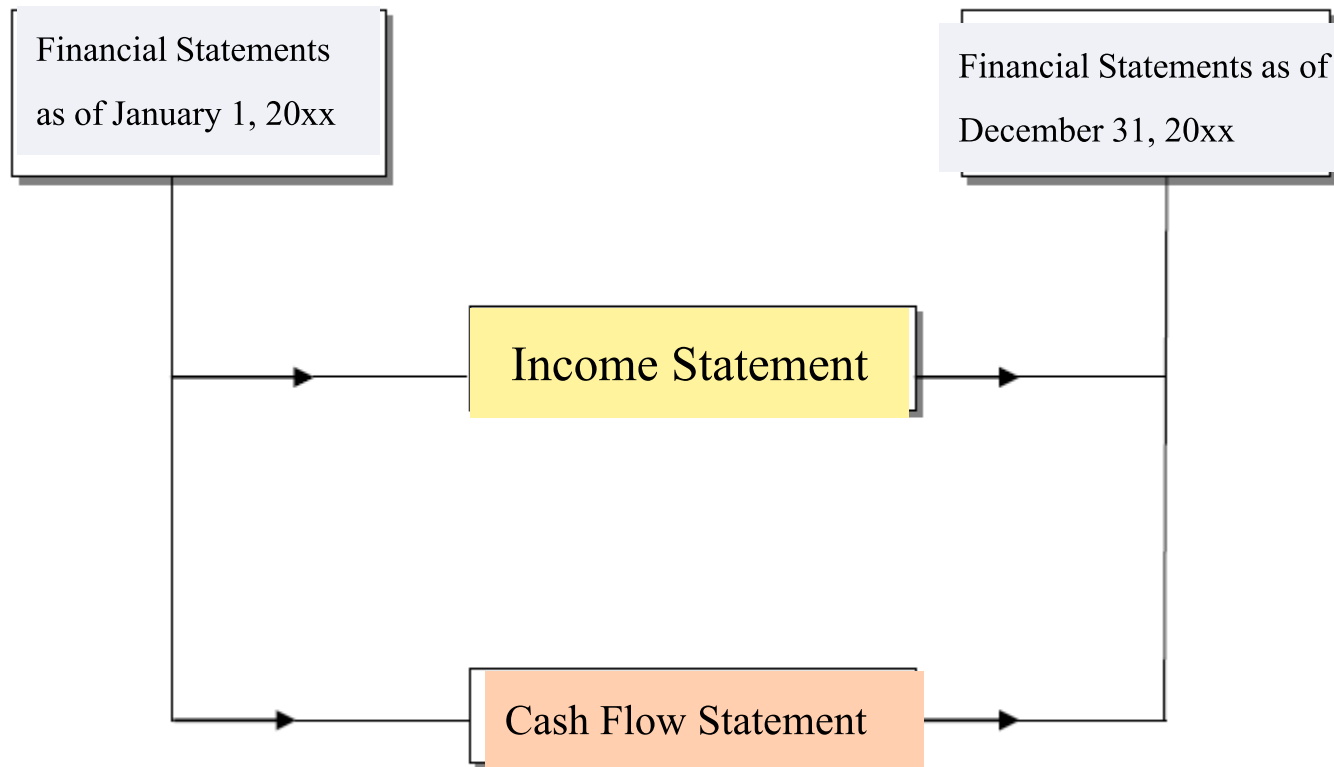
Cash Flow From Operations		
Net Earnings		2,000,000
<i>Additions to Cash</i>		
Depreciations		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
<i>Subtractions From Cash</i>		
Increase in Inventory		(30,000)
<u>Net Cash From Operations</u>		<u>2,012,000</u>
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Notes Payable		10,000
<u>Cash Flow for FY Ended 21 Dec 2017</u>		<u>1,522,000</u>



Statement of Cash Flows



The relationship between income statements, financial statements, and cash flow statements



ที่มา : Introduction Financial Accounting โดย Charies T.Horngren . Gary L.Sundem และ John A. Elliott หน้า 397)



BENEFITS OF CASH FLOW STATEMENT

- • Enables financial statement users to assess the liquidity of the business. Demonstrate the ability to pay, such as paying for goods and services, paying employees' salaries, etc.
- • Checking profitability and net cash flow
- • Evaluating the ability of the business to generate future cash flow. This makes it possible to manage the cash in the next installment carefully.
- • Help assess the ability of the business to repay debts, pay dividends, and borrow money.
- • Data from cash flow from investment activities Know how much money the business uses for investment and how it is • Data from cash flow from procurement activities.
- • To know how much money the business has borrowed, repaid, issued new shares, paid dividends
- • To know the financial structure of the business whether it is a part of debt or equity, it can be used to assess the risk of the business in the future.



SUMMARIZE

- Cash flow statements include: Operating Activities cash flow statement refers to the main activities that generate income and expenses of the business. Investing Activities refers to the acquisition and disposition of long-term assets and other investments that do not affect operations. Financing Activities refers to activities that result in changes in transactions on the part of the owner and part of the loan. It allows financial statement users to assess the liquidity of the business. Demonstrate the ability to pay, such as paying for goods and services, paying employees' salaries, etc. Benefits of cash flow statements It is used to monitor profitability and net cash flow. It is used to assess the ability of the business to generate future cash flows. This makes it possible to manage the cash in the next installment carefully. Prevent cash shortages
- • Help assess the ability of the business to repay debts, pay dividends, need for loans, etc., which meets the cash criteria.



EXERCISE 3 : COMMENTING

- Look at the risks and prepare for them in advance.**
- Reduce unnecessary in-store expenses**
- Track stock efficiently**
- Encourage customers to shop faster in the store with offers.**

- Choose one point and comment on "Which can help increase cash flow, why?"
- By writing comments and explaining.



EXERCISE 4 : ANALYZE DATA “WHY LENDERS LOOK AT CASH FLOW”

- From the article titled “Why cash flow is more important than profit”



Why cash flow is more important than profit

It is quite possible for a company to report profits but go out of business. It is also possible for a company to be profitable and not be able to grow, secure financing or attract investors.

- Read and write an explanation of why: “Why lenders look at cash flow”



DEADLINE

- **Exercise 3 and 4**
- send to chumpon.ro@ssru.ac.th
- **March 1, 2023**

