



CASH FLOW STATEMENT
TUTORIAL FOR BEGINNERS

TABLE OF CONTENTS

| | |
|---|-----------|
| I. INTRODUCTION | 3 |
| II. WHY CASH FLOW STATEMENT IS NECESSARY? | 3 |
| III. PREPARE CASH FLOW STATEMENT – WHAT IS REQUIRED | 4 |
| IV. STRUCTURE OF CASH FLOW STATEMENT | 4 |
| V. CASH FLOW STATEMENT PREPARATION PROCESS | 6 |
| V.I. PREPARING 1ST PART – CASH FLOW FROM (TO) OPERATING ACTIVITIES | 6 |
| V.II. PREPARING 1ST PART – CASH FLOW FROM (TO) OPERATING ACTIVITIES – EXAMPLE | 9 |
| V.III. PREPARING 2ND PART – CASH FLOW FROM (TO) INVESTING ACTIVITIES | 11 |
| V.IV. PREPARING 2ND PART – CASH FLOW FROM (TO) INVESTING ACTIVITIES – EXAMPLE | 12 |
| V.V. PREPARING 3RD PART – CASH FLOW FROM (TO) FINANCING ACTIVITIES | 13 |
| V.VI. PREPARING 3RD PART – CASH FLOW FROM (TO) FINANCING ACTIVITIES- EXAMPLE | 15 |
| V.VII. FINALIZING CASH FLOW STATEMENT | 17 |
| VI. CASH FLOW STATEMENT – COMPREHENSIVE EXAMPLES | 18 |
| VII. TEST YOUR KNOWLEDGE | 27 |
| VIII. FURTHER READING | 30 |
| IX. TEST YOUR KNOWLEDGE – ANSWERS | 30 |

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V.VII. FINALIZING CASH FLOW STATEMENT

As it was already mentioned when three parts of the cash flow statement are prepared, they are added together and the result is net increase (decrease) in cash and cash equivalents.

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| Extract from balance sheet – ABC company | 200X (last year) | 200X1 (current year) |
|--|------------------|----------------------|
| Cash and cash equivalents | XXXXXX | YYYYYYY |

| | | | | | | |
|---------|---|--------|---|--------|---|---------------------------------|
| 200X1 | - | 200X | = | AAAAAA | → | Net change in cash for the year |
| YYYYYYY | | XXXXXX | | | | |

| | | |
|---|--|---|
| <i>Ist part: Cash flow from (to) operating activities</i> | | + |
| <i>IInd part: Cash flow from (to) investing activities</i> | | + |
| <i>IIIrd part: Cash flow from (to) financing activities</i> | | = |
| AAAAAA (net change in cash for the year) | | |

VI. CASH FLOW STATEMENT – COMPREHENSIVE EXAMPLES

This part includes two comprehensive examples of cash flow statement preparation.

1st example. Prepare cash flow statement for XYZ company

The following financial statements are available for company XYZ:

1. Income statement for the year 2006

| Company XYZ, Income statement | 2006 |
|-------------------------------|----------------|
| Sales | 243,750 |
| Cost of goods sold | (109,497) |
| Gross profit | 134,253 |
| Depreciation expenses | (4,378) |
| Operating expenses | (2,640) |
| Earnings before tax | 127,235 |
| Taxes | (38,171) |
| Net income | 89,064 |

| | | |
|-------------------------------------|----------------|----------------|
| Liabilities and equity | | |
| Accounts payable | 4,800 | 9,800 |
| Notes payable | 600 | 600 |
| Interest payable | 900 | 0 |
| Total current liabilities | 6,300 | 10,400 |
| Long-term debt | 55,000 | 65,000 |
| Total liabilities | 61,300 | 75,400 |
| Common stock | 45,000 | 90,000 |
| Last year retained earnings | 11,440 | 14,350 |
| Current year retained earnings | 2,910 | 32,850 |
| Total equity | 59,350 | 137,200 |
| Total liabilities and equity | 120,650 | 212,600 |

| Income statement | 2005 | 2006 |
|-------------------------------------|--------------|---------------|
| Net sales | 12,800 | 45,000 |
| Cost of goods sold | (5,750) | (6,600) |
| Gross profit | 7,050 | 38,400 |
| Operating expenses | (1,350) | (2,000) |
| General and administrative expenses | (850) | (900) |
| Depreciation expenses | (500) | (1,000) |
| Earnings before tax | 4,350 | 34,500 |
| Taxes | (1,440) | (1,650) |
| Earnings after tax | 2,910 | 32,850 |

Practical exercise II

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VIII. FURTHER READING

More detailed reading can be found on the site www.bookkeeping-financial-accounting-resources.com/accounting-books.html

IX. TEST YOUR KNOWLEDGE – ANSWERS

Correct answers to the test questions are marked in bold.

1. An increase in accounts receivable represents a reduction in cash flows from operations.
A) True. When the company sells goods, income is reflected in the income statement, however if the goods are sold on credit, i.e. the customer will pay for the goods later after the sale, accounts receivable increase causing reduction in cash flows from operations.

