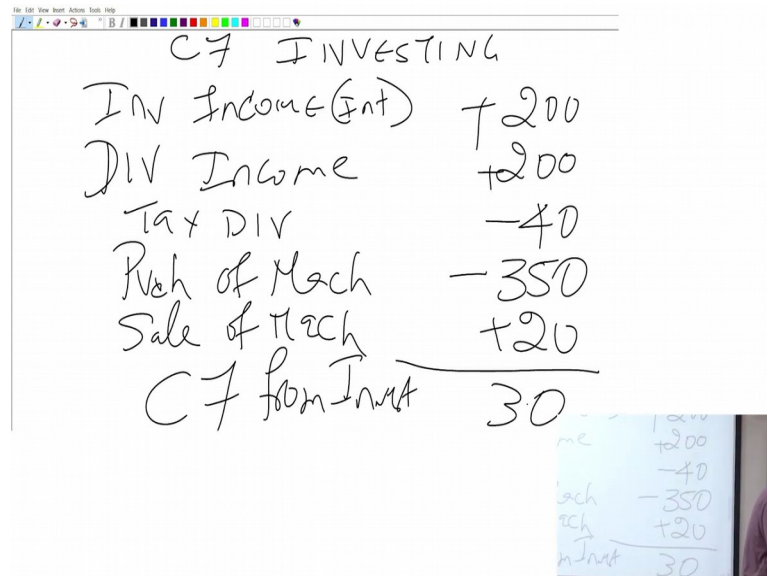


Decision making using financial accounting
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Lecture - 22
Cash Flow Statements -3

(Refer Slide Time: 00:15)



The image shows a handwritten cash flow statement for investing activities on a whiteboard. The title is 'CF INVESTING'. The items listed are: 'INV Income (Int)' with a value of +200, 'DIV Income' with a value of +200, 'Tax DIV' with a value of -40, 'Purch of Mach' with a value of -350, and 'Sale of Mech' with a value of +20. A horizontal line is drawn under the 'Sale of Mech' entry. Below the line, the total is calculated as 'CF from Invest' with a value of 30. There is a small inset image of the whiteboard in the bottom right corner.

CF INVESTING	
INV Income (Int)	+200
DIV Income	+200
Tax DIV	-40
Purch of Mach	-350
Sale of Mech	+20
<hr/>	
CF from Invest	30

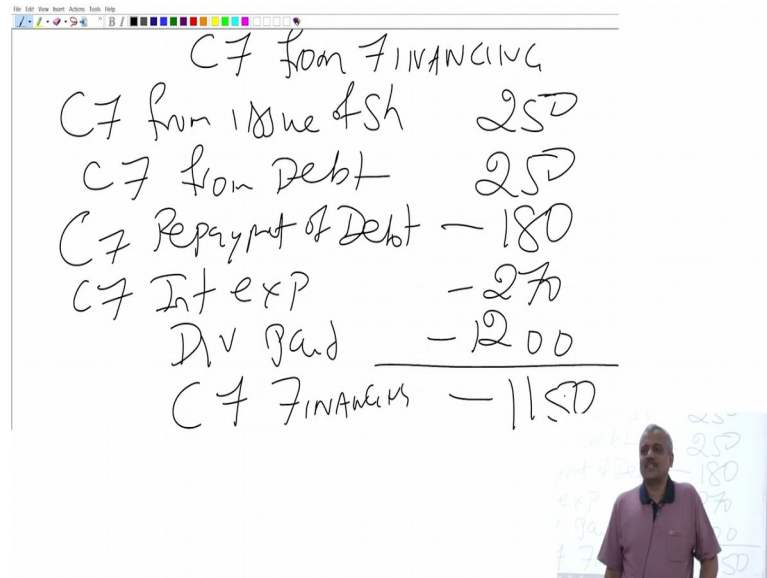
So, basically what happens? If you take this 350 you have purchased and the 80 dollar machinery which has gone out basically what we record in the balance sheet is gross value. Gross value means value at which it has been purchased, the original cost, the original value, that is a gross value. What is the gross value of the machinery that has gone out? 80 dollars is the value of machinery that has gone out, that is what it says. So, 350 dollars worth of machinery you have bought, that is 19 10 plus 350 minus 80 dollars worth of machinery that has gone, minus 80 will basically give you this figure of 2180. Am I with you on this? You just check that out, if you need if you need.

So, what is the cash inflow and outflow? Cash inflow is 350, cash outflow is 350 dollars because you have bought a machinery. You have sold some old machinery and what have you got? Only 20 dollars is what you have got. 20 dollars is basically the cash inflow out there. There is nothing else beyond this. So, this gives me what is called as cash flow from investing activity. That will be about how much is it? That will be roughly about 30 dollars. You just total plus and minus plus 200 plus 200, 400 minus 350 is

about 50, 50 minus 40 is 10, 10 plus 20 is about 30 out there, straight, simple. No numerology, so you can just do addition subtraction mentally. Keep in the side.

With you on this; so, we did cash flow from operation. We did cash flow from investing. Now, what is left out? Cash flow from financing activity. Let us do that.

(Refer Slide Time: 02:07)



A handwritten table on a whiteboard showing cash flow from financing activities. The table lists several items with their corresponding values in USD. The total cash flow from financing is calculated as -1150 USD.

CF from FINANCING	
CF from Issue of Sh	250
CF from Debt	250
CF Repayment of Debt	-180
CF Int exp	-270
Div Paid	-1200
CF FINANCING	-1150

Now, can you list out the cash flow from financing activity? Yes, Swapnika, go ahead. Do not worry, take a try. Do not feel embarrassed.

Student: Sir, so (Refer Time: 02:25) is the fixed asset.

Fixed asset is what? When you when you buy a car, when you buy a machinery what are you doing?

Student: Investing.

You are investing.

What are we doing now?

Student: We are talking about the long term debt.

Yeah, go ahead.

Student: We talk about the capital and the reserve.

Yeah, tell me about the capital. Let us start with the capital.

Student: Then it is.

If we look at the share capital out here, what has what has happened?

Student: The last year increase was 1250.

Previous year it was 1250, this year it is 1500 obviously. That means, what has happened? 250 dollars has increased, it is not a bonus, it. Why it is not a bonus? Because there is a statement given out there. You can also read it. It could be a bonus, bonus means no cash inflow in this case they have issued fresh equity shares not 250 dollars, it is clearly mentioned out there. So, what has happened? When I have issued fresh equity shares for 250 dollars, what happens?

Student: Inflow basically.

Inflow, do not sir, it is a liability, I have to pay back do not worry about all that. We are worried only about cash, no liability, no asset out here. Money coming, money going out, that is all. So, cash inflow from issue of shares out there 250. Yes, ma'am.

Student: Is it reserve.

Reserve, what happens? Reserve is it a cash flow where how does reserves come in.

Student: It is a accumulation of.

Accumulation, that is all. Reserve comes from where? Your profit, whatever your culling got out of here, is your profit cash.

Student: No.

Then, let us not worry about it.

Student: It is not (Refer Time: 03:59).

Whatever, let us not worry about it. That has nothing to do with cash [laughter].

Student: Then we have long term debt.

Yeah, long term debt. Tell me ma'am.

Last year was triple one, last year is 1040, this year was 1110; that means. That means?

Student: 70 is the.

70 dollars is the net increase what you see. But just go to the point number 2 out here, point number 1 out here, it says I raised a further debt of about 250 dollars.

Student: Amount of cash inflow.

So, what is happening? Further 250 inflow, then why is it not adding up? Do not worry, we will come to that. There is a inflow of 250 dollars, then I read out what do you call it as interest expenditure interest amount 600 to 400 in dividends paid, taxes to be given, what do you call it as during the period your property, plant, etcetera sending debtors creditors everything is fine. Now, though you have got 250 dollars inflow in terms of long term debt, your net increase in debt is how much? Only 1010, 1040 minus 1110. That means, how much is the increase?

Student: Only 70 dollars.

Only 70 dollars is the increase. Why only 70 dollars is the increase?

Student: Cash

Student: We have a cash, cash.

Simple sir, you have take it what did the statement gives you only the new debt what you have taken. It is not giving you what is the debt you have repaid. It would have reduced because for example, now, what would have happened? What is the debt last year? The debt last year was 1040. I have got a new debt of 250, so ideal total debt is 1290. Whereas, according to books what is it? It is only 1110. That means, what is happening to the remaining debt? You would have ideally repaid in the process. Am I with you on this? So, I will explain again, that is cash flow from new debt out here is 250. Am I right?

Now, I will say cash flow because of repayment of debt. What is a kind of repayment of debt that has occurred on this particular case out here? What is the kind of debt that I have repaid out here?

Student: Long term.

Student: Long term debt.

Long term debt I have repaid. What is the amount I have repaid?

Student: 14.

See 1250, if the 1040 was the old debt, 250 is borrowed.

Student: 1414

That means 1290 should be the ideal new debt, whereas the ideal debt, whereas what the ideal debt it should be 1290 whereas in the balance sheet says 1110; that means, what is the difference?

Student: Sir, 180.

Student: 180.

180 is the debt what you should have ideally repaid in this particular case.

Student: In the original problem is more than the increase.

250 is the increase.

Student: As an amount of another 250 was taken (Refer Time: 07:00) time.

That is extended, that is full sentence. I first broke it only for share capital, now we looked at the second half of it. Now, what else pertains to? What you call it as investing activity in this, financing activity in this particular case. Interest expenditure, interest expenditure is basically what is called as a cash flow because of what is called as interest expenditure. Interest expenditure according to the balance sheet is 400 dollars, sorry according to the P and L is 400 dollars. Now, last year interest payable was 100, that means, what is the total interest payable?

Student: 500.

500. This year it is still due of about 230; that means, how much you should have ideally paid?

Student: 270.

270 is what you would have ideally paid out there, 270. Yeah. Yes, ma'am. Go ahead.

Student: Can you please explain it could you please explain.

Sorry, this one.

Student: Yes.

Ok. Interest. Now, there is an interest expenditure in the P and L, P and L ma'am. Interest expenditure in the P and L.

Student: Yeah.

Interest pertains to what?

Student: Whatever we.

For a borrowing financing activity. What is the interest expenditure in P and L?

Student: 400.

400, right. It is 400. Was there anything due at the beginning of the year?

Student: There are.

Student: Interest is.

Payable.

Student: Payable.

Liability side, balance sheet.

Student: Yes sir.

Student: Yes sir.

What was the due at the, what was the due at the beginning of the year?

Student: 100.

100. That means last year 100 was due. This years interest payable is 400; that means, what is the total liability as far as the interest is concerned at the end of this year.

Student: 500

500.

Student: 500.

Student: 500.

How much is still due at the end of year?

Student: 270

That means how much have you paid?

Student: 270.

Student: 270.

What I have done. Agreed. Then is there anything else I am leaving, I am left out. Where is it?

Student: Points.

Point number 3. Look at point number 3, point number 3 that is it. Point number 3 says dividend paid rupees 1200. Yes Mallika, any problem?

Student: No, sir.

Point number 3 on the other side of the balance, on the other side of the paper, what you see is 1200 is the dividend paid. Dividend paid occurs after the net profit is calculated that is why it is not shown out there. Dividend is paid after the net profit is calculated.

So, 1200 dividend paid. Dividend paid is because of a what is called as a financing activity out there. Why do you pay dividend? You paid dividend to whom?

Student: Shareholder.

Yeah.

Student: Shareholder.

Beautiful equity shareholders, equity shareholders.

Student: Equity.

Ok. Shareholders is fine, preferring shareholders also you pay dividend. Dividend is paid to shareholders. Dividend is paid out of the net profit is calculated. When dividend is paid it is a cash outflow or inflow? Outflow.

Student: Outflow.

Outflow because of what? Financing activity, that is all. So, now, calculate what is the cash flow from what is called as financing activity. What is the cash flow from financing activity?

Student: (Refer Time: 10:21) 1150.

Minus. So, far so clear. Now, we need to know whether whatever we have done is correct. Now, let us come to that. What are the cash flow from operations for this particular company? Cash flow from operations.

(Refer Slide Time: 10:29)

CF from OP	1830
CF from Inv	30
CF from Fin	-1150
OP cash + cash equiv	160
Current Cash + Cash Equiv	870

Student: 1830.

18.

Student: 30.

Student: 1830.

18, plus or minus?

Student: Plus.

Plus 1830. Cash flow from what is called as your my investing activity was negative 30.

Student: Plus 30.

Plus 30.

Student: Plus 30.

Cash flow from financing activity was negative 1150, that is a cash that is being generated from these 3 activities to the year. Am I with you or not?

Student: Yes, sir.

So, what is the cash that you should have on your in your in your cash box as of now?

Student: 710.

All these 3 things put together, only these 3 things, but there was some cash at the beginning of the year know. There was some cash when you started, right. What is the opening cash balance out there?

Student: (Refer Time: 11:14).

Opening cash plus cash equivalence. Now, I will talk about what is cash and cash equivalent. There is about marketable securities. Marketable securities normally we treat cash and cash equivalence that is what we will say. When we say cash equivalents anything which can be converted to a cash in a jiffy, anything that can be converted to a cash in jiffy is treated equivalent to cash. Most of these marketable securities I can just trade it and then generate money out of it these are all normally, because instead of keeping it in the liquid form you are keeping it into the some form which is basically little more secure, which could be tradable, which could possibly earn a little bit of return also for you.

So, when we say marketable security is normally we will consider as equivalent to cash. Cash plus cash equivalent. When I say a cash it is not only cash, cash plus bank account plus marketable securities because your bank account money is also equivalent to cash, cash bank plus my your what you call it as marketable securities. So, what are the opening balance of a cash and cash equivalent? 25 plus.

Student: 200.

Student: 135.

Student: 135.

135. Now, can I just add and total and whatever it is?

Student: 870.

Student: 550.

Student: 920.

9, no, no. It will not be 920.

Student: Add to as of the.

1830 plus 30 minus 1150 minus.

Student: 870 total.

8, 5 is there no, 130, yeah.

Student: Sir, 135 is cash.

What is the total that is what I have asked you? 135 plus 25 how much is it?

Student: 1.

1.

Student: 60.

160.

How much is it total? How much is the total?

Student: 870.

8?

Student: 70.

All of you got 870.

Student: Yes.

Now, go to the current years cash and marketable securities find out how much is it?

Student: 210.

Current years cash and marketable security, cash and cash equivalent.

Student: 80 (Refer Time: 13:17).

So, that means, what have I done I have traced the cash, I have taken the last years cash out here, last years cash was so much. I have traced the cash out there and then brought it

to the figure of the current cash balance out there, that is all what I have done. I have tracked the path of the cash in these 3 things. See, what is the current years cash and cash equivalent? 200 plus something 870. So, this is also 870 which should be equal to current cash plus cash equivalent. Current cash current cash plus cash equivalent should be 870 and you can actually check it.

If your cash flow statement is correct then this will match, if your cash flow statement is wrong it will never match; obviously, right. What have I done? I have taken last years cash, right, I have traced what is the money that is generated from operation net money, I have traced what is the money that is generated from next investing, what is the money that is generated from net financing; obviously, that should all be equivalent to current cash what I have cash and cash equivalent, what I have, that is all what I have done.

Student: Yeah.

What do you call it as can you give me a walk through, that is the in interviews I think you would be asking when you are interviewing some freshers from our MBA you will be asking. Can you give me a walkthrough of your MBA program? Like that this is just a walkthrough of the cash that is going on, going in and coming out of your business out there, that is all.

Student: (Refer Time: 14:50).

I just took you [FL] walk through the cash out there cash that is coming in and coming out what has happen. Only thing is I grouped it into 3 buckets. Normally, why do I group it in to 3 different buckets? Because we have our 10 minutes more, let me sort of talk about. Why do I group it into 3 different buckets out here? Now, your cash can be very high because of too much of financing activity.

Student: Yes.

Now, if your cash is very high because of too much of financing activity, not very good because I need to know whether my operating activity is giving me a positive cash flow or not.

In my operating activity is not giving a positive cash flow and my investing activity there is what is called as a what is called as a too much of negative cash flow and there is a too

much of a positive cash flow in financing. That means, what am I doing? I am not taking care of my operations I am borrowing and investing in, trading out there investing in an activity which is unrelated to my?

Student: Core activity.

Student: Core activity

Core activity. Simple. Yes, Mister Srinivasan.

Student: 160 you get.

Student: 160.

Oh, 160 is cash and cash equivalent sir. What is cash? Cash. What is the cash, in the opening cash? 25 dollars.

Student: 25.

Student: Yeah.

Cash equivalent I said, anything which can be converted to a cash in a jiffy is always called as cash equivalence. Somebody can say sir marketable security is weak and I cannot convert. Let us keep all that aside, right. We can only, because you are here in the class you cannot do work out there, only when you are working we are talking about it. So, only 5 days a week. So, cash and cash equivalent, that is the total out there. Yes Murali Krishnan. Any question?

Student: No, no.

Hazarika, fine.

Student: Fine.

So, what are we looking at? In the ideally what we see out here in this particular case is I see that my operating cash flow should be sufficient enough for my investing, right. That is I should invest from here out there and this should be sufficient enough to repay for a established company, for a company which is ongoing which is which is which is does not need any new capital, it should my operating cash flow should take care of my in-

vesting capital and should also take care of my financing, that is when I am repaying all the financing. Financing out there, that is if I am repaying the debt for meeting all by interest obligation, dividend obligation, everything, this should be ideally take care of these two.

That is what we are trying to see out here. Because you have to generate money from your operation, and the money that you are generating from the operation is what you will invest in buying further machinery for a established entity. The money from you are generating from the operation is what you are going to use for paying of the dividends to your share holder. That is basically the financing part of it.

So, your operating cash flow should encompass these. So, the here if somebody says I am cash rich, I am cash rich, I am cash rich, if I just do the statement I will know whether the cash rich here is because of a financing activity that is too much of borrowing can happen and could be possibly because of that also. One can argue I one can detect it from the balance sheet. Yes, but still. So, your we what we do?

The money that goes out of the business, the money that comes into the business we are categorizing in to 3 different buckets and that will give me what is the total money that is there generated because of each of these 3 activities. I added to my opening cash that is there, will obviously, give you your end of the year cash out there, that is all, nothing beyond that.

Now, if you look at your outline, I have given some specific exercise numbers problem numbers, 11.4 like in exercise. I am not well sure about the exercise number. Outline is there with you? Please bring the outline also to the class. What is the cash flow statement? Where which chapter? Open it.

Student: 11.

Student: 11.

Student: Cash flow 11.

11, chapter 11. Do not worry about chapter 11. You can just note down. I will give you the exercise numbers also out here. Aman do not be a little perplex that why from chap-

ter 3 I have jumped to chapter 11 do not worry. If we have to cover the whole book it needs a year, right. We cover what are the important aspects out there that is all.

Now, you can attempt some of these problems out there. And 11.4 is something which you should attempt on your own. If you have problem, let me know. I will do it in the online class next class next week. One of the online classes I will spend little bit on what do you call it as discussing the balance sheet and P and L of what is there with you, that is Maruti Udyog Swot, you can have that copy ready with you. As well as we will try and can see if we can discuss 11.4 also. 11.4 and 11.5 also these two basically you can possibly try on your own. 11.4 and 11.5 that will complete the cash flow statement per se.