

Financial Statements Analysis and Reporting
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Lecture - 58
Final Cash Flow Statement Part-II

Welcome students. So, we are in the process of say discussing that cash flow statement and in this process till my last part of discussion I was talking to you that we are learning to prepare cash flow statement and we completed the half means third step, but not completed the third step and that third step was the say preparing the final cash flow statement. So, we tried to understand that how to prepare the cash flow statement under operating activates only and we tried to see that how much is the cash flow and means whether it is a cash inflow or outflow the net result and that was the result we found that the company that this company Skyline India has net inflow of 80,00,000 rupees that is the end result. After tax means the totally inflow after the tax was 80,00,000 rupees which we would have and we could see that this inflow is sufficient inflow if we look at the total resources of the company or the total funds of company, total investment by the company. So, the one year's cash flow is net cash flow from the operations is 80,00,000.

So, that was the first part we could do and now will be continuing with the remaining part of the final cash flow statement and then we will have some analytical discussion. So, if you talk about this in that case you can say that next part is the cash flow from investing activities and then we will be talking about the cash flow from the financing activities.

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Final Cash Flow Statement of Shyama			
Particulars	Amount (Rs. Lacs)		
A. Cash flow from operating activities	80.00	Repayment of S. loan	7.00
B. Cash flow from investing activities		4.00	(2.00)
Purchase of fixed assets	(70.00)	Int. paid	(9.75)
Sale of fixed assets	0.75	Dividend paid	(12.50)
Purchase of long term Int.	(14.00)	Corporate Div. Tax paid	(1.50)
Sale of L.T. Investment	20.00	Net Cash Inflow (outflow)	(7.75)
Purchase of S.T. Investment	(21.75)	from F. Act.	
Int. received	12.00		
Dividend received	10.00		
T.D. paid on Int. received	2.00		
Net Cash inflow/outflow from operating activities	(65.00)		
C. Cash flow from financing activities			
Share Capital	12.50		
Secured loan	12.50		

So, if you talk about the cash flow from the investing activities again we prepare the statement here and then we take the important components into account how much is the cash flow from investing activities, this is the final cash flow statement; final cash flow statement India limited. So, we have here the; if we talk about the details we are going to take here is that is the particulars and here it is amount. So, we will write here for reference that is the cash flow cash flow from operations or operating activities and this cash flow from the operating activities was how much this is 80,00,000 that is after paying tax we are having the positive inflow of 80,00,000 rupees that is the cash flow from the operations.

Now, we will have the cash flow from the investing activities, this is the B part this is the A part, this is the B cash flow from investing activities; cash flow from investing activities and in this case you know that what are the divisions and what are the; say activities which are considered as the investing activities you easily understand that investment means we make the investment in the say long term assets like say plant, building, machinery, they are the investment kind of activities and for investment purpose. So, that the funds can be multiplied and the more investment can be generated there are called as a investing activities more investment can be generated.

So, this is one, second is the real time investment you can say that is the firm has surplus funds they can be invested in the market it is may be on the long term or the short term

basis. So, if any investments are made in the market then yes we will have to take that into account and we will have to include that as the investing activities. So, any investment in the long term assets any investment in the long term investments, real investments. So, they will be considered as the cash flow from the investing activities. So, then we will buy the safe assets long term assets of the fixed assets cash will flow out and when we will sell these assets in the market, cash will flow in similar when the investment will brought from the market or investment made in the market we will call them as the means as cause as the cash out flow, but when these investments sold and converted into cash then they will be called as the they will causing the cash inflow.

So, that all kind of investments we are taking here into account and we will be considering those investments. So, investing activities and the details of investing activities are these and then after that will be are talking about the financing activities we are only the 2 broad sources one is the share capital of financing the firms operations and second is the loans long term loans. So, these are the broad funding sources. So, when the capital is sold in the market or the shares are sold in the market it causes the inflow and then the shares are brought back or redeemed it cause is the outflow and similarly the long term loans when we borrow money when the long term basis it causes the inflow for when we return the loans. So, that causes is the outflow. So, it is only for the reference purpose, but we will be talking about that third part later on currently we talk here about the cash flow from the investing activities.

So, we had a detailed analysis in the previous lectures and after preparing the basic cash flow statement we prepared different notes which we call as schedules also and there we made the detailed analysis about all the assets we made the analysis of the fixed assets we made the analysis of say your work capital work in progress and we made the analysis of depreciation also. So, everything is done there and then we will be only talking about the cash inflow and outflow on account of the fixed assets.

Similarly, we talked about the investments also and we prepared the detailed notes and schedules you can refer to the previous lectures you will find out that what are the different schedules we have prepared and from those schedules we will have to pick up the information and we will have to put it here, but only those things will be taking will be taking into consideration which are causing the cash for example, we have seen that in skyline some assets are purchased for issuing the say there are swapped with the

debentures. So, it means there is no inflow of cash outflow of the cash debentures have say gone out and the fixed assets have come in. So, it which means there is no change in the cash position. So, we will not take that in to consideration.

So, similar is the other important and here one say machine was sold machine for 4,00,000 rupees was sold the accumulated depreciation was 3,00,000 and the machine was sold means the residual value of the machine was 1,00,000 rupees and 1,00,000 rupees machine was sold for 75,000 rupees and there was a loss of 25,000 rupees. So, that will be taken into account because there is a there is a inflow of the cash and the asset has reduced and the cash has come in.

So, let us consider what are the important sources of cash inflow and the revenues of outflow. So, first in investing activity is the purchase of fixed assets purchase of fixed assets and if you talk about this purchase fixed assets how much we have sold paid for 70,00,000 we have paid for the purchase of fixed assets is seventy lakh it is the out flow this is the rupees, in lakhs, this is rupees in lakhs, this is 70,00,000 purchase of fixed assets that is 70,00,000, it means cash has moved out similarly sale of the fixed assets. So, fixed assets has also been sold sale of fixed assets and how much was received as a cash on sale that was 75,000 rupees was received as a sale proceed on sale of fixed assets.

Similarly, now we talk and there is nothing I think with regard to the fixed assets only the assets were purchased for 70,00,000 and then sold for 4,00,000. So, 4,00,000 of the assets we calculated depreciation and depreciation was say 3,00,000. So, we are counted that in the depreciation part because depreciation we has we have taken some twenty two point something. So, it means that is the total depreciation we have taken that into account and sale of the fixed asset of 4,00,000 rupees minus depreciation of 3,00,000, 1,00,000 is the balance and 1,00,000 rupees of the assets is sold for how much 75,000 rupees. So, this is the investing inflow is only 75,000 rupees and then that 25,000 rupees loss which was there on the sale of fixed assets that is not the say when we recover that from the profit and loss account it means that is the operating inflow.

So, we have taken that operating inflow there in the operating cash flows operating cash flow from the operating activities. So, we will not be taking that here into account on account of the sale fixed assets we have received only 75,000 rupees point 0.75 lakhs and

that we have considering or taking into account. So, it means it is the purchase of fixed assets sale of fixed assets not purchase of long term investments; purchase of long term long term investments and if you talk about purchase of long term investment the figure we had calculated was 14,00,000 that the investments are purchased it means the funds flow out and investment documents flow in.

So, we have purchase the investments of the 14,00,000. So, we are considering those and then the sale of long term investments some long term investments were also sold in the market. So, it is sale of long term investments and if you talk about sale of long term investments then how much was is that is the sale of long term investment is 20,00,000 this is the 20,00,000. So, we are given this total information here and you take this into account we will find out that with regard to investment.

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Additional Information:

1. An amount of Rs. 25 lacs was capitalized out of general reserve to issue bonus shares. Rest of the capital was raised in cash.
2. 12% debentures were issued in lieu of a fixed asset acquired.
3. Long term secured loans (others) of Rs. 12.50 lacs were raised during the year.
4. Fixed assets with original cost of Rs. 4 lacs and accumulated depreciation of Rs. 3 lacs were sold for Rs. 75,000.
5. Long term investments amounting to Rs. 14 lacs were purchased during the year.
6. Last year's outstanding dividend and dividend tax were paid during the year.
7. Miscellaneous expenditure amounting to Rs. 15 lacs were incurred during the year.
8. Out of interest income of Rs. 15 lacs, Rs. 10 lacs were actually received during the year. Rs. 2 lacs relating to interest income of last year were also received during the current year.
9. Out of interest expense of Rs. 7.25 lacs, Rs. 4.75 lacs were actually paid during the year. Rs. 5 lacs relating to interest expense of the last year were also paid during the current year.
10. Tax deducted at source on interest received, amounting to Rs. 2 lacs, is included in the current tax expense.

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Investments		
Long term	99.00	105.00
Short term	43.50	21.75
	142.50	126.75
Current Assets, Loans and Advances		
Inventories	28.00	78.00
Sundry Debtors	85.00	72.50
Cash and Bank Balances	10.00	2.75
Interest receivables	5.00	2.00
Loans and advances	12.00	15.00
	140.00	170.25
Less: Current Liabilities and Provisions		
Current liabilities:		
• Sundry creditors	16.50	94.50
• Interest payable	2.50	5.00
Provisions:		
• Current income tax (Net of advance tax paid)	3.00	5.00
• Proposed dividend	15.00	12.50
• Corporate dividend tax	1.80	1.50
	38.80	118.50
Net Current Assets	101.20	51.75
Miscellaneous Expenditure (To the extent not w/o)	16.00	5.00
TOTAL	366.20	228.50

Some information is given long term investments amounting to rupees 14,00,000 were purchased during the year. So, we have taken that into account and investments their purchases sold for 20,00,000 rupees. So, means if you go to the balance sheet here in the balance sheet we are given the investment figure and long term investments if you look at we have this figure of long term investments that is 105 and it has come down to 91.

So, it means we have the total investment of what was the closing balance closing balance was 105 and we purchased investment for 14,00,000s here it means the total balance should have been 119,00,000s, but we are left with the 99,00,000, it means investments to the extent of 20,00,000 are sold in the market. So, we can easily verify this statement also this amount also that is the short term investment we talk about purchase of purchase of short term investments purchase of short term investments and if you talk about the purchase of short term investment then it is how much it is we have calculated already 21.75 lakhs if you talk about the a short term investments purchased. So, you can find out that is the total opening balance was 21.75 and the closing balance is 43.5, it means we have further purchased the investments for short term investment 21.75 lakhs.

So, it is again verifiable then interest received; interest received from the investments and that interest received is we have already calculated we have seen the schedule

number note number 6 and that was 12,00,000 interest and then other items with us are dividend received yes that dividend which we say subtracted here.

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SKYLINE INDIA LIMITED Profit and Loss Account for the year ended 31 st March, 2007	
Particulars	(Rs.) in lacs
Sales	1532.50
Interest	15.00
Dividend	10.00
Total Income	1557.50
Materials cost	1121.00
Manufacturing expenses	174.75
Administrative and selling expenses	60.25
Depreciation	22.50
Interest	7.25
Deficit on fixed assets sold	0.25
Miscellaneous expenditure w/o	4.00
Profit Before Taxation and Extraordinary Item	167.50
Expenditure income - Compensation for copyright infringement	9.00
Profit Before Taxation	176.50
Provision for Income Tax:	
* Current income tax	25.00
* Deferred income tax	15.00
Total	40.00
Profit After Tax	136.50
Balance brought forward from last year	14.50
Balance Available for Appropriations	151.00
Appropriations:	
* Proposed dividend	15.00
* Current dividend tax	1.80
* General reserve	120.00
Surplus Carried to Balance Sheet	14.20

If you talk about the operating cash flow from the operating activities you can easily make out that you see there was interest in dividend income of that 10,00,000 rupees. So, this interest is dividend is now adding back this is it is a dividend received.

So, dividend received is dividend received is how much is the dividend received figure that is 10,00,000 dividend received is 10,00,000 interest is 12 because we have taken this 15 into account in adjusting everything into the schedule. So, if you talk about the schedule number 6 you will find that the net receipt of the interest is 12,00,000. So, we have shown it here and then it is the see tax on interest received TDS tax paid on interest received is 12,00,000 that is the TDS paid on interest received that is 2,00,000. So, this is also the cash outflow tax paid on the interest received is. So, it means you can say that it is the tax deducted at source on interest received is 2,00,000 rupees that is included in the current expenses that is included in the current expense. So, we subtracted it from there that we subtracted from there we have seen that the total incoming tax was coming out is 55,00,000, but there the we have taken income tax as 53,00,000.

So, we have to add this figure of the 2,00,000 here because that belongs to the investing inflow and not from the operating inflow or nothing related to the tax. So, we have taken this into account. So, it means finally, we have now this all is there, nothing else there.

So, it means net cash inflow oblique outflow from investing activities from investing activities is how much we will have to now calculate it here and if you calculate this you taking this as the positive figures. So, this is the one 80,00,000 is to taken separate and if you adjust this total is 65,00,000 and this 65,00,000 is the net result is the out flow on a account of investing activates out flow is more than the inflow. So, it means net result is the out flow and that we have shown here that we have taken here into account that is the cash flow from the investing activities.

Now, we talk about the cash flow from financing activates and this is c cash flow from financing activities. So, first one is the share capital because here we have only share capital and long term loans nothing else. So, share capital gets is how much share capital we have already calculated that is 12.5 lakhs of the inflow other than share capital what were the sources that is the secured and unsecured loans secured loans secured loans if you talk about the debentures, debentures are not caused an inflow as I discuss with you because they were issued for the purchase of fixed assets. So, we will not take that into account.

So, it means secured loans this is the long term loans and if you talk about this, this was 12.5 lakhs of the secured loans raised then we have the secured loans raised then repayment of the then after that we will continue the statement here repayment of repayment of secured loans and if you take the repayment of secured loans here you will be able to make out that how much repayment we have made for the secured loans here schedule number is 8.2 and this is 7,00,000 repayment made is it is given to as also that seven lakh rupees of the secured loans have been repaid and then is the repayment of the unsecured loans repayment of unsecured loans repayment of unsecured loans and they are short term they are short term. So, how much the amount was we have already calculated short term loans and that is 2 lakh rupees. So, it is the negative figure it is going out. So, we have taken shown it as a out flow repayment of secured share say share capitals secured loans repayment of secured loans long term repayment secured loans short term then is the interest paid

And interest paid and the loans interest paid is and then is the dividend paid interest and dividends paid are the 2 other important components they are causing the outflow. So, interest paid is how much that is 9.75. We have already calculated in the note you can refer to the detailed note and there dividend paid is 12.5 again it is 9.5; 9.75 and then it is

the dividend is 12 point dividend, if you talk about here the dividend figure is that is 12.5 is the payment we have made. So, these are the three payment continues we are made then the corporate dividend tax paid corporate dividend tax corporate dividend tax paid and this corporate dividend tax if you talk about it is 1.5 corporate dividend tax paid is the 1.5.

So, I think it is the total net cash; net cash inflow oblique outflow from financing activities from financing activities is how much? If you calculate the net figure if you take into account the outflow and inflow, this works out as 7.75 lakhs; 7.75 lakhs and then net increase or decrease in cash; net increase or decrease in cash from ABC that is operating investing and the financing activities and if you talk about this. So, if you take this how much is 80 is the a; then it is minus, it should negative figure 65 and then it is 7.75. So, if you take this into account, this works out as 72.75. So, it is 80 minus 72.75. So, this works out as 0.25 and it is 7. So, it is finally, the net result is 7.25; 7.25 lakhs of the cash is the net result.

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Particulars	Amount (Rs. in Lakhs)	Amount (Rs. in Lakhs)
A. Cash flow from operations	7.00	
B. Cash flow from investing activities	(2.00)	
C. Cash flow from financing activities	(1.00)	
Net Cash Flow	4.00	
Opening Balance	10.00	
Closing Balance	14.00	

So, 7.25 is the cash is the net result and in this case, if you talk about the in this if you talk about if you add opening balance of cash, in this cash if you add the opening balance of cash that is the how much? It was 2.75 yes, 2.75. So, the closing balance of the cash is closing balance of cash here is that is 10,00,000, closing balance of the cash is 10,00,000. If you go to the balance sheet here, back to the balance sheet, you will find here that is

the closing balance of the cash here that is 10,00,000 rupees this is the closing balance of cash is 10,00,000 rupees. So, it means we have the 10,00,000 rupees of the closing balance of cash and it is verified that what is the position with regard to the cash from the operating investing and the financing activities.

Now, in this case if you analyze this cash flow statement and the position we have found out here you will be really finding it amazing that if you talk about the skyline because it is not one part is important that you have to calculate the figures and you have to make the cash flow statement that is the most difficult part is the most difficult statement I would say and this is the most difficult part of the financial analysis even ratios are much better and easier to calculate. But they are also the interpret should be intelligent here in this case if both the things are say complex even preparing the cash flow statement is complex and when you inter pair the cash flow statement then also you requires some prudence or some that kind of intelligence or the financial background as a financial analyst or you should become good financial analyst after preparing the cash flow statement.

Now, look at these cash flows if you talk about operation we have 80,00,000, but on other 2 account cash is flowing out it means the form is overall if you rated how did it the finance performance of the firm you should say the performance of the firm is very good and the firm as very good bright effective future if you why I am saying like that because as I told you that point of decision making and point of basis decision making should be that you it its manufacturing from it seems that Skyline India is a manufacturing from and as I told you early year also that basis of analysis should be that in a manufacturing form if the say operating structure is good. But the financial structure is not that good no problem it will improve because a strong operating structure will improve the even weak finical structure, but reverse should not be there a strong finical structure and a weak operating structure that kind of structure are not means desirable it means that kind of company not have the good bright future.

So, in this case, if you talk about the Skyline India you see that the major source of inflow or cash is flowing in from the operation that is eighty lakh rupees cash as flown in from operations if you talk about the investing activities the company is buying the assets rather than selling them who sell the assets in the market whose financial position is not good, but you are buying the assets and 70 worth of 70,00,000 worth of assets

purchased by company in the current year also. So, it means it is having the sufficient cash and that is purchased for cash. So, it means the company is having sufficient cash and another set of assets that is 50,00,000 as it purchased for debenture also should be somebody ready to debentures of this company that is why he is supplying the assets he is ready to become the lender; lender of the company and 70,00,000 worth of the assets have been purchased for a cash it means if the company as surplus cash and requirement of the use of the long term assets and capacity of use of fixed assets long term assets it means their operation will become further more stronger currently they are also strong, but they were also improvement they will further become more stronger. So, even the investing activities are really good.

We talk about the third part financing activity again we have finding that the net result is out flow. So, cash is flowing out and in this case how much cash is flowing out that is 7.75 lakhs. So, they have generated funds by way of shared capital and 12.5 lakhs came from the share capital, they have taken loans also, but you see the point concern here is that the company as service there loan also on the time and without any default pre payment secure loan as made to the tune of 7,00,000 maybe they were due and the company as paid them even the short term loans 2,00,000 has been paid.

So, that is again very good situation and then is the interest is also company it means the talk about the that service coverage ratio of this company interest coverage ratio of this company that is really wonderful very good and company is able to service debt also and pay the interest also and at the same time company is paying the dividend though larger chunk of the reserve is there reinvesting back in to business. Again it is a very good strategy who can effort to reinvest back the profits and who share holder are allowing the company who are sure about that this company which it is bright this company is going to have better dividend better returns in the time to come.

So, in that case means this no problem so 25,00,000 rupees have been used by the company for issue bonus share they have benefited the shareholders also. So, we have a surplus are converted into share capital that is one positive strength, positive point and other the share holders are gaining by getting a dividend. So, in this year shareholders have got 2 benefits, one they got bonus share for 25,00,000 rupees and another they have got the say dividend which is also half of the amount of the bonus shares that is reserve

and surplus converted into the bonus shares again its very good feature and corporate dividend tax is also company is paying.

So, it means finally, it is the 1.5 lakh of corporate dividend tax also has been paid. So, it means by preparing the cash flow statement, at least you can be sure about that if you have to deal in any capacity with Skyline then you say that your; as an investor your funds are safe, as a lender your funds are safe, as a supplier to the company your funds are safe and this company is having very strong operating structure and even their investing financial structures are also good. So, it means overall performance of the company is acceptable is good is wonderful and cash flow statement helps us to say understand the overall financial performance of the company and also each we have to understand whether the larger chunk of the profits is all cash or they are credit.

So, it means we have already been received or they are yet to be received. So, that is again a very important point. So, this all means we could understand that with the help of ratio analysis and the cash flow statement these are 2 very strong techniques of the financial statement analysis and with the help of these techniques we can understand to a larger extent that what is the overall financial position of the company. Some other techniques of the financial analysis for your reference purpose not in detail I will discuss with you in the next lecture.

Thank you very much.