

# BACHELOR of ECONOMICS



**Thammasat University  
Faculty of Economics  
Bachelor of Economics (International Program)**

## AC201 Fundamental Accounting

Semester 1/2013

### Course Materials

**Topic:**

Chapter 13 Reporting and Interpreting  
Statement of Cash Flows

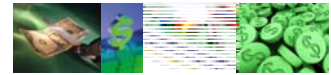
**Session:**

Session #13

**Instructor:**

Assistant Professor Dr. Orapan Yolrabil

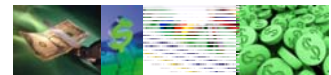




## CHAPTER 13: REPORTING AND INTERPRETING STATEMENT OF CASH FLOWS

Assistant Professor Dr. Orapan Yolrabil  
Department of Accounting  
Thammasat Business School  
Thammasat University

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มาตรฐานการบัญชี ฉบับที่ 7 (ปรับปรุง 2552)

เรื่อง

งบกระแสเงินสด

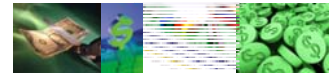
คำแถลงการณ์

มาตรฐานการบัญชีฉบับนี้เป็นไปตามเกณฑ์ที่กำหนดขึ้นโดยมาตรฐานการบัญชีระหว่างประเทศ ฉบับที่ 7 เรื่อง งบกระแสเงินสด ซึ่งเป็นการแก้ไขของคณะกรรมการมาตรฐานการบัญชีระหว่างประเทศ ที่สิ้นสุดในวันที่ 31 ธันวาคม 2551 (IAS 7: Statement of Cash Flows (Bound volume 2009))

**TAS7 Statement of Cash Flows**

Federation of Accounting Professions

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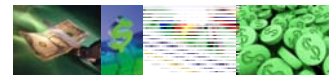


## Definition

### • The following terms are used in this Standard with the meanings specified:

- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Operating activities** are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- **Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

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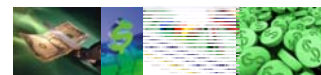


## Fundamental Principle

### • Fundamental Principle in TAS 7

- All entities that prepare financial statements in conformity with TFRSs are required to present a statement of cash flows. [TAS 7.1]
- The statement of cash flows analyses changes in cash and cash equivalents during a period.
  - Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.
    - Guidance notes indicate that an investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition.
    - Equity investments are normally excluded, unless they are in substance a cash equivalent (e.g. preferred shares acquired within three months of their specified redemption date).
    - Bank overdrafts which are repayable on demand and which form an integral part of an entity's cash management are also included as a component of cash and cash equivalents. [TAS 7.7-8]

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## Statement Presentation

- **Presentation of the Statement of Cash Flows**
  - Cash flows must be analyzed between operating, investing and financing activities. [TAS 7.10]
  - Key principles specified by TAS 7 for the preparation of a statement of cash flows are as follows:
    - operating activities are the main revenue-producing activities of the entity that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees [TAS 7.14]
    - investing activities are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents [TAS 7.6]
    - financing activities are activities that alter the equity capital and borrowing structure of the entity [TAS 7.6]
  - Interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period [TAS 7.31]
  - Cash flows arising from taxes on income are normally classified as operating, unless they can be specifically identified with financing or investing activities [TAS 7.35]

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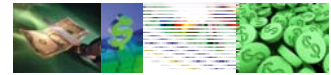


## Operating Cash Flows – Direct Method

- **For operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable [TAS 7.18]**
- **The direct method shows each major class of gross cash receipts and gross cash payments.**
  - The operating cash flows section of the statement of cash flows under the direct method would appear something like this:
 

• Cash receipts from customers	XX,XXX
• Cash paid to suppliers	XX,XXX
• Cash paid to employees	XX,XXX
• Cash paid for other operating expenses	XX,XXX
• Interest paid	XX,XXX
• Income taxes paid	XX,XXX
• Net cash from operating activities	XX,XXX

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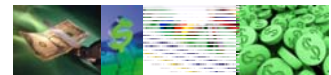
## Operating Cash Flows – Indirect Method

- The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

- The operating cash flows section of the statement of cash flows under the indirect method would appear something like this:

• <b>Profit or loss (Net income)</b>	XX,XXX
• Add back depreciation	XX,XXX
• Add decrease in current assets	XX,XXX
• Deduct increase in current assets	XX,XXX
• Add increase in current liabilities	XX,XXX
• Deduct decrease in current liabilities	<u>XX,XXX</u>
• <b>Net cash from operating activities</b>	<u>XX,XXX</u>

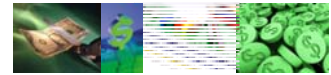
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## Investing and Financing Cash Flows

- Cash flows from investing and financing activities should be reported gross by major class of cash receipts and major class of cash payments.
- Investing and financing transactions which do not require the use of cash should be excluded from the statement of cash flows, but they should be separately disclosed elsewhere in the financial statements [TAS 7.43]

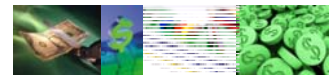
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## Preparation of Statement of Cash Flows



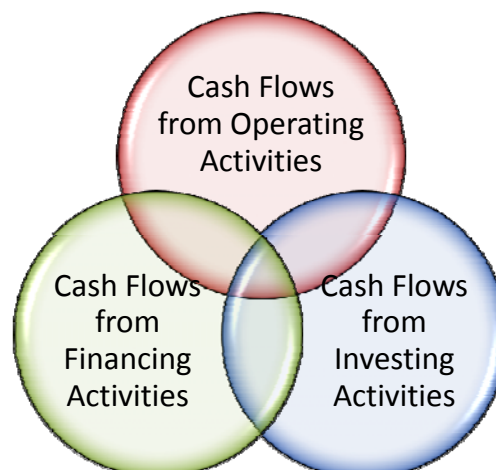
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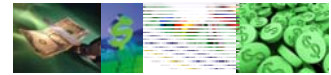
## Statement of Cash Flows

### • Statement of Cash Flows

- The statement of cash flows analyses *changes in cash* and cash equivalents during *a period*.
  - Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value.



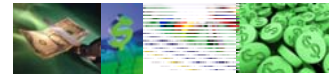
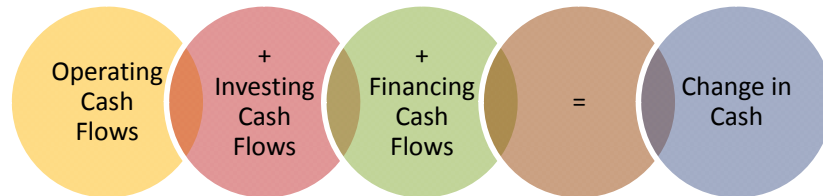
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## Cash Flows Categories

### Categories of Cash Flows

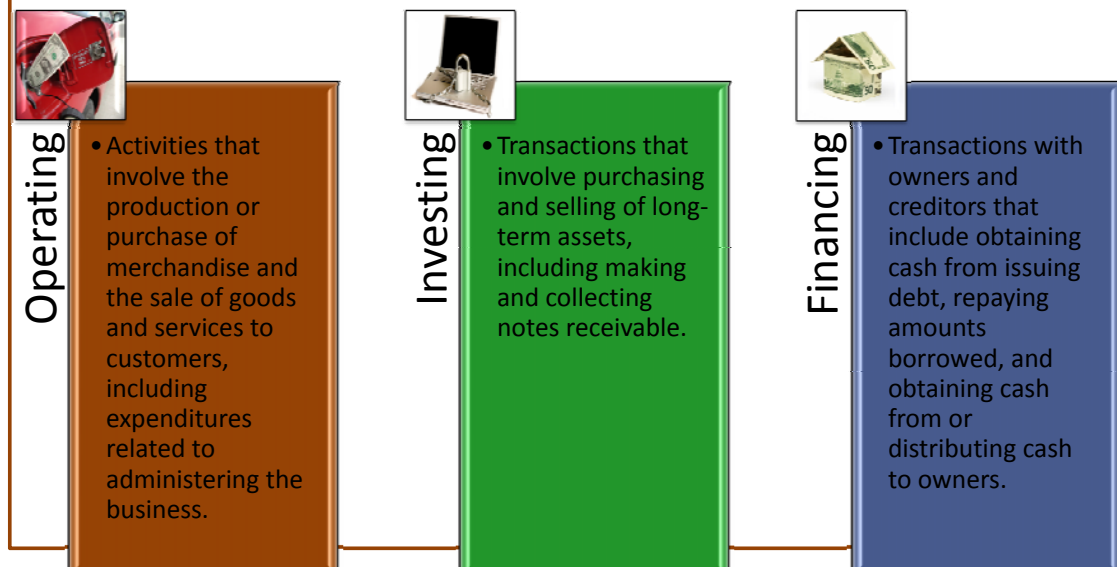
- Cash flows must be analyzed between operating, investing and financing activities.
  - **Operating activities** are the main revenue-producing activities of the enterprise that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees.
  - **Investing activities** are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents.
  - **Financing activities** are activities that alter the equity capital and borrowing structure of the enterprise.

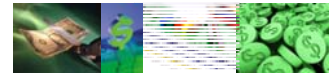


## Statement of Cash Flows

### Statement of cash flows

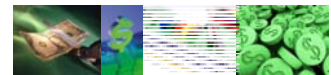
- It reports all major cash receipts (inflows) and cash payments (outflows) during the period in the categories of operating, investing, and financing activities.



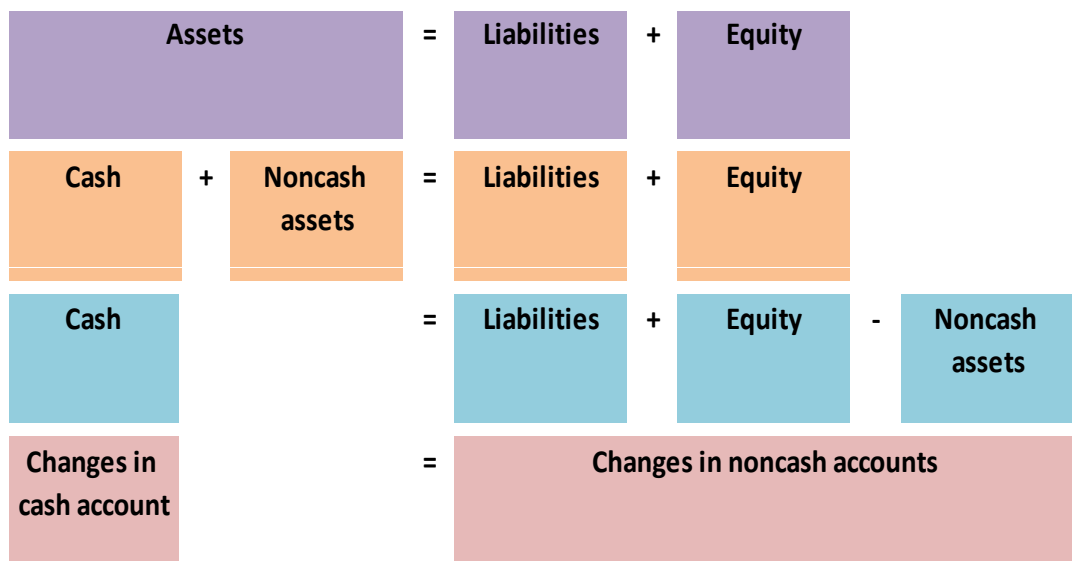


## Statement of Cash Flows (Cont.)

- ❖ **Cash is defined as including both cash and cash equivalents.**
  - ❖ Cash equivalents are investments that can be quickly converted to cash; they have a maturity of 90 days or less when they are purchased.
    - ❖ They include money market accounts, commercial paper, and government treasury bills.
    - ❖ A company invests in cash equivalents to earn interest on cash that would otherwise be temporarily idle.
- ❖ **Purposes of the statement of cash flows:**
  - ❖ The primary purpose of the statement of cash flows is to provide information about a company's cash receipts and cash payments during an accounting period.
  - ❖ A secondary purpose is to provide information about a company's operating, investing, and financing activities during the accounting period.

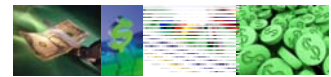


## Relationship between Cash and Noncash Accounts



Company Name Statement of Cash Flows Period Covered (in Baht)	
<b>Cash flows from operating activities:</b> [List of individual inflows and outflows] Net cash flows from operating activities	①
<b>Cash flows from investing activities:</b> [List of individual inflows and outflows] Net cash flows from investing activities	②
<b>Cash flows from financing activities:</b> [List of individual inflows and outflows] Net cash flows from financing activities	③
<b>Net increase (decrease) in Cash</b>	<b>① + ② + ③</b>
<b>Cash (and equivalents) balance at beginning of period</b>	<b>+ Beg. B/L</b>
<b>Cash (and equivalents) balance at end of period</b>	<b>= End. B/L</b>

*Same as cash balance on the balance sheet*



## Statement of Cash Flows Preparation

- To prepare the statement of cash flows,

### Comparative Statement of Financial Position

- Used in calculating the cash flows from all activities (operating, investing, and financing).

### Statement of Comprehensive income

- Used primarily in calculating cash flows from operating activities

### Additional Details

- Concerning selected accounts where the total change amount in an account balance during the year does not reveal the underlying nature of the cash flows.



# Cash Flows from Operating Activities

## CASH FLOWS FROM OPERATING ACTIVITIES



- Presentation of net cash from operating activities for the statement of cash flows *that lists major operating cash receipts less major operating cash payments.*

**Direct Method**

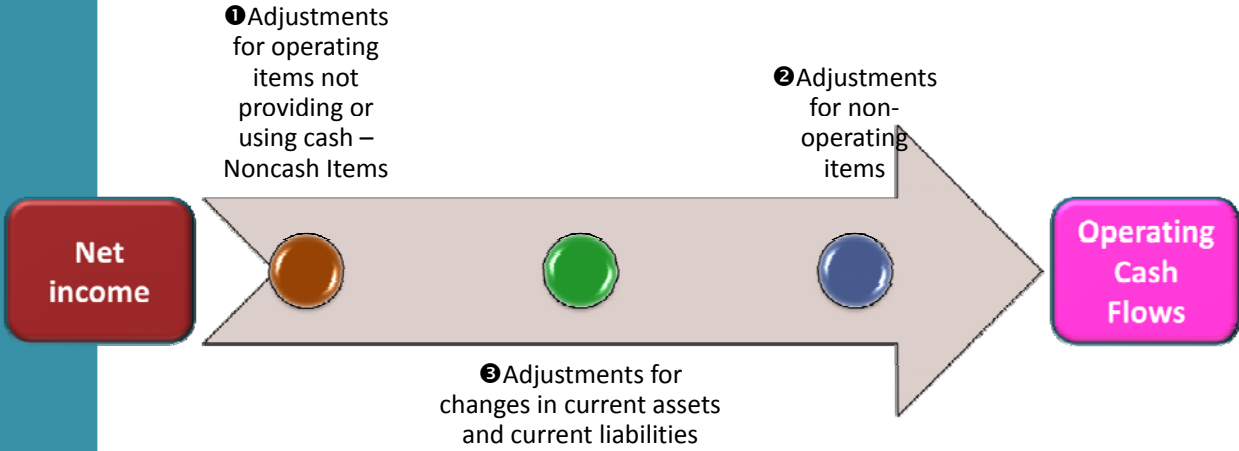


- Presentation that reports *net income and then adjusts it by adding and subtracting items to yield net cash from operating activities* on the statement of cash flows.

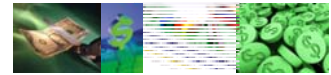
**Indirect Method**



# Indirect Method -- OCF



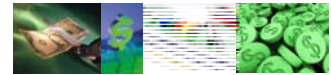
	Changes in Account Balance During the Year	
	Increase	Decrease
<b>Current Assets</b>	Subtract from NI	Add to NI
<b>Current Liabilities</b>	Add to NI	Subtract from NI



## Indirect Method -- OCF

Company Income Statement For the Years Ended December 31, 20XX (In Baht)		
Sales and other revenue	Adjusted by	Δreceivable and unearned revenue
Cost of goods sold	Adjusted by	Δinventory and payable
Other operating expenses	Adjusted by	Δprepaid expenses and payable
Depreciation expense	Adjusted by	add back noncash expenses
Other gains (losses)	Adjusted by	add back losses and subtract gains
<b>Net income</b>		
<b>Adjustments:</b>		
+ (-) Noncash expense (revenue)		
- (+) Gain (Loss) related to nonoperating activities		
- (+) Increase (Decrease) in noncash current assets		
+ (-) Increase (Decrease) in current liabilities		
<b>Operating cash flows</b>		

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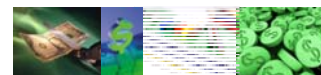


## Indirect Method -- OCF

- **Net income or net loss**
  - Additions to net income:
    - + Depreciation, depletion, and amortization.
    - + All losses from sale of noncurrent assets.
    - + Decreases in current assets (other than cash).
    - + Increases in current liabilities.
  - Deductions from net income:
    - - All gains from sale of noncurrent assets.
    - - Increases in current assets (other than cash).
    - - Decreases in current liabilities.



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## Adjustments to Net Income

### Adjustments to net income:

- Depreciation and other noncash expenses
  - Depreciation expense, amortization expense, and depletion expense for these assets appear on the Statement of income as allocations of the costs of the original purchases to the current accounting period.
    - Even though depreciation expense appears on the Statement of income, it involves no outlay of cash and so does not affect cash flows in the current period.
- Gains and losses
  - Gains and losses that appear on the Statement of income do not affect cash flows from operating activities and need to be removed from this section of the statement of cash flows.
    - The cash receipts generated by the disposal of the assets that resulted in the gains or losses are included in the investing activities section of the statement of cash flows.
    - The gains or losses must be removed from net income.

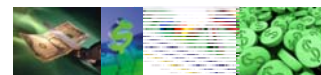
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## Adjustments to Net Income (Cont.)

- Changes in current assets
  - Decreases in current assets other than cash have positive effects on cash flows, and increases in current assets have negative effects on cash flows.
    - A decrease in a current asset frees up invested cash, thereby increasing cash flows.
    - An increase in a current asset consumes cash, thereby decreasing cash flows.
- Changes in current liabilities
  - The effect of changes in current liabilities have on cash flows is the opposite of the effect of changes in current assets.
    - An increase in a current liability represents a postponement of a cash payment, which frees up cash and increases cash flows in the current period.
    - A decrease in a current liability consumes cash, which decreases cash flows.

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## Investing and Financing Activities

### Investing activities:

- To determine cash flows from investing activities, accounts involving cash receipts and cash payments from investing activities are examined individually.
  - The objective is to explain the change in each account balance from one year to the next.
    - Although, investing activities center on the long-term assets shown on the balance sheet, they also include any short-term investments shown under current assets on the balance sheet and any investment gains and losses on the Statement of income.

### Financing activities:

- Determining cash flows from financing activities is very similar to determining cash flows from investing activities, but the accounts analyzed relate to short-term borrowings, long-term liabilities, and shareholders' equity.



## Illustration

- Use the following information to prepare statement of cash flows:

Genesis Income Statement For the Years Ended December 31, 2008 (In Baht)		
Sales		590,000
Cost of goods sold	300,000	
Wages and other operating expenses	216,000	
Interest expense	7,000	
Depreciation expense	24,000	(547,000)
		43,000
Other gains (losses)		
Gain on retirement of bonds	16,000	
Loss on sale of plant assets	(6,000)	10,000
Income before taxes		53,000
Income taxes expense		(15,000)
<b>Net income</b>		<b>38,000</b>

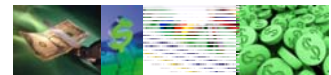
**Genesis**  
**Balance Sheet**  
**As of December 31, 2008 and 2007**  
**(In Baht)**

	2008	2007	Changes	Sign
<b>Assets</b>				
Current assets				
Cash	17,000	12,000	5,000	↑
Accounts receivable	60,000	40,000	20,000	↑
Merchandise inventory	84,000	70,000	14,000	↑
Prepaid expenses	6,000	4,000	2,000	↑
Total current assets	<u>167,000</u>	<u>126,000</u>	41,000	
Noncurrent assets				
Plant assets	250,000	210,000	40,000	↑
Less: Accumulated depreciation	<u>(60,000)</u>	<u>(48,000)</u>	<u>(12,000)</u>	↑
Plant assets, net	<u>190,000</u>	<u>162,000</u>	28,000	
Total assets	<u><u>357,000</u></u>	<u><u>288,000</u></u>	69,000	
<b>Liabilities</b>				
Current liabilities				
Accounts payable	35,000	40,000	(5,000)	↓
Interest payable	3,000	4,000	(1,000)	↓
Income taxes payable	22,000	12,000	10,000	↑
Total current liabilities	<u>60,000</u>	<u>56,000</u>	4,000	
Long-term bonds payable	<u>90,000</u>	<u>64,000</u>	26,000	↑
Total liabilities	<u>150,000</u>	<u>120,000</u>	30,000	
<b>Equity</b>				
Common stock	95,000	80,000	15,000	↑
Retained earnings	<u>112,000</u>	<u>88,000</u>	24,000	↑
Total equity	<u>207,000</u>	<u>168,000</u>	39,000	
Total liabilities and equity	<u><u>357,000</u></u>	<u><u>288,000</u></u>	69,000	

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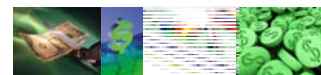
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### Illustration (Cont.)

- **Additional information:**
  - The accounts payable balances result from merchandise inventory purchases.
  - Purchased plant assets costing 70,000 Baht by paying 10,000 Baht cash and issuing 60,000 Baht of bonds payable.
  - Sold plant assets with an original cost of 30,000 Baht and accumulated depreciation of 12,000 Baht for 12,000 Baht cash, yielding a 6,000 Baht loss.
  - Received cash of 15,000 Baht from issuing 3,000 shares of ordinary share.
  - Paid 18,000 Baht cash to retire bonds with a 34,000 Baht book value, yielding a 16,000 Baht gain.
  - Declared and paid cash dividends of 14,000 Baht.

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## Indirect Method -- OCF

### Adjustments to Net Income:

#### 1 Noncash Items

- Depreciation expense (I/S) +24,000 Baht

#### 2 Nonoperating Items

- Loss on sale of plant assets (I/S) +6,000 Baht
- Gain on retirement of bonds (I/S) -16,000 Baht

#### 3 Changes in CA & CL

- Increase in accounts receivable (B/S) -20,000 Baht
- Increase in merchandise inventory (B/S) -14,000 Baht
- Increase in prepaid expenses (B/S) -2,000 Baht
- Decrease in accounts payable (B/S) -5,000 Baht
- Decrease in interest payable (B/S) -1,000 Baht
- Increase in income taxes payable (B/S) +10,000 Baht

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## Cash Flows from Investing Activities

Plant Assets		
Beg. B/L	210,000	
<b>Acquisition</b>	<b>70,000</b>	<b>Sale 30,000</b>
End. B/L	250,000	

Accumulated Depreciation		
	Beg. B/L	48,000
<b>Sale</b>	<b>12,000</b>	Dep. Exp. 24,000
	End. B/L	<b>60,000</b>

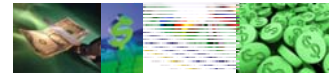
### Cash Received from Sale of Plant Assets:

Book value of plant assets sold:		
Asset cost	30,000	
<u>Less: Accumulated depreciation</u>	<u>-12,000</u>	18,000
+ Gain (- Loss) on sale of plant assets		-6,000
<b>Cash received from sale of plant assets</b>		<b>12,000</b>

### Cash Paid for Purchase of Plant Assets:

Book value of plant assets purchase	70,000	
- Debt issuance in exchange		-60,000
<b>Cash paid for purchase of plant assets</b>		<b>10,000</b>

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## Cash Flows from Financing Activities

Bonds Payable		
	Beg. B/L	64,000
<i>Retired Bonds</i>	<i>34,000</i>	Issued Bonds 60,000
	End. B/L	<b>90,000</b>

### Cash Paid to Retire Bonds

<i>Book value of bonds retired</i>	<i>34,000</i>
+ Gain (- Loss) on retirement of bonds	16,000
<b><i>Cash paid to retire bonds</i></b>	<b><i>18,000</i></b>

Common Stock		
	Beg. B/L	80,000
	<i>Issued Stock</i>	<i>15,000</i>
	End. B/L	<b>95,000</b>

Retained Earnings		
	Beg. B/L	88,000
<i>Cash Dividends</i>	<i>14,000</i>	Net income 38,000
	End. B/L	<b>112,000</b>

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Genesis Statement of Cash Flows For the Years Ended December 31, 2008 (In Baht)		
<b>Cash flows from operating activities</b>		
Net income		38,000
Adjustments:		
Depreciation expense	24,000	
Loss on sale of plant assets	6,000	
Gain on retirement of bonds	(16,000)	
Increase in accounts receivable	(20,000)	
Increase in merchandise inventory	(14,000)	
Increase in prepaid expenses	(2,000)	
Decrease in accounts payable	(5,000)	
Decrease in interest payable	(1,000)	
Increase in income taxes payable	10,000	(18,000)
Net cash flows from operating activities		20,000
<b>Cash flows from investing activities</b>		
Cash received from sale of plant assets	12,000	
Cash paid for purchase of plant assets	(10,000)	
Net cash flows from investing activities		2,000
<b>Cash flows from financing activities</b>		
Cash received from issuing stock	15,000	
Cash paid to retire bonds	(18,000)	
Cash paid for dividends	(14,000)	
Net cash flows from financing activities		(17,000)
Net change in cash		5,000
Cash balance at beginning of period		12,000
Cash balance at end of period		<b>17,000</b>

INDIRECT METHOD

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# STATEMENTS OF CASH FLOWS

**PRESIDENT BAKERY PUBLIC COMPANY LIMITED**

For the years ended 31 December 2011 and 2010

**Example of Financial Statement  
Presentation & Disclosure:  
Statement of Cash Flows**  
[Source: www.farmhouse.co.th]

(Unit: Baht)

## SEPARATE FINANCIAL STATEMENTS

### Cash flows from operating activities

	2011	2010
Profit before tax	926,681,160	738,851,657
Adjustments to reconcile profit before tax to net cash provided by (paid from) operating activities:		
Depreciation and amortisation	411,071,194	375,694,250
Gain from disposals of property, plant and equipment	(3,872,902)	(1,714,952)
Share of income from investment in joint venture	-	-
Unrealised loss on exchange	259,065	241,898
Provision for long term employee benefits	4,030,557	-
Allowance for doubtful accounts	94,966	-
Interest income	(10,890,068)	(4,071,842)
Dividend income	(585,000)	(585,000)
Interest expenses	11,574,920	9,162,712

# STATEMENTS OF CASH FLOWS

**PRESIDENT BAKERY PUBLIC COMPANY LIMITED**

For the years ended 31 December 2011 and 2010

(Unit: Baht)

## SEPARATE FINANCIAL STATEMENTS

	2011	2010
Income from operating activities before changes in operating assets and liabilities	1,338,363,892	1,117,578,723
Decrease (increase) in operating assets		
Trade and other receivables	(177,637,529)	(77,492,414)
Inventories	(21,590,685)	(24,000,873)
Other current assets	1,755,544	(3,660,938)
Other non-current assets	184,851	(736,091)
Increase (decrease) in operating liabilities		
Trade and other payables	89,023,670	108,385,125
Other current liabilities	31,024,748	18,359,718
Other non-current liabilities	340,294	(69,244)
Provision for long-term employee benefits	(1,618,300)	-
Cash from operating activities	1,259,846,485	1,138,364,006
Cash paid for interest expenses	(11,574,920)	(9,162,712)
Cash paid for corporate income tax	(109,362,129)	(113,359,730)
<b>Net cash from operating activities</b>	<b>1,138,909,436</b>	<b>1,015,841,564</b>

# STATEMENTS OF CASH FLOWS (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED

For the years ended 31 December 2011 and 2010

(Unit: Baht)

## SEPARATE FINANCIAL STATEMENTS

	2011	2010
<b>Cash flows from investing activities</b>		
Purchase of other long-term investment	(15,000,000)	-
Acquisition of property, plant and equipment	(522,266,666)	(399,154,065)
Proceeds from disposals of property, plant and equipment	4,813,542	3,950,011
Increase in advance payments for purchase of assets	(13,675,309)	(15,347,413)
Increase in intangible assets	(125,899)	(270,000)
Interest income	10,890,068	4,071,842
Dividend income	585,000	585,000
<b>Net cash used in investing activities</b>	<b>(534,779,264)</b>	<b>(406,164,625)</b>

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# STATEMENTS OF CASH FLOWS (CONTINUED)

PRESIDENT BAKERY PUBLIC COMPANY LIMITED

For the years ended 31 December 2011 and 2010

(Unit: Baht)

## SEPARATE FINANCIAL STATEMENTS

	2011	2010
<b>Cash from financing activities</b>		
Increase (decrease) in bank overdrafts	78	(486,841)
Decrease in liabilities under finance lease agreements	(52,180,486)	(45,503,644)
Increase in long-term loans from directors	6,850,649	12,638,431
Decrease in long-term loans from employees	(4,253,329)	(4,055,012)
Dividend payments	(343,350,000)	(273,150,000)
<b>Net cash used in financing activities</b>	<b>(392,933,088)</b>	<b>(310,557,066)</b>
<b>Net increase in cash and cash equivalents</b>	<b>211,197,084</b>	<b>299,119,873</b>
Cash and cash equivalents at beginning of year	385,066,986	85,947,113
<b>Cash and cash equivalents at end of year</b>	<b>596,264,070</b>	<b>385,066,986</b>

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