

Cash flow statement: meaning and practical use (2)

(2/45/19)

This article picks up where we left off [last week](#).

Operating cash flows arise mainly from a company's regular operations that generate revenue. This is the main indicator of whether the company's operations have generated cash flows that are sufficient, without any external financing sources, to –

- repay loans,
- keep the company in business,
- pay dividends and make new investments.

The choice of method for preparing the statement of cash flows we mentioned earlier affects only the cash flows from operations section, and both methods should give the same results!

Cash flows from operations: direct method – example

	2019 EUR	2018 EUR
Cash flows from operations		
Income from sales of goods and services	1000	1000
Payments to suppliers and employees, and other operating expenses	(500)	(1000)
Other operating income or expenses	100	100
Gross cash flow from operations	600	100
Interest charges	(100)	(100)
Corporate income tax charges	(100)	(100)
Net cash flow from operations	400	(100)

Cash flows from operations: indirect method – example

	2019 EUR	2018 EUR
Cash flows from operations		
Profit or loss before adjustment for corporate income tax	1500	1500
Adjustments for impaired fixed assets	100	100
Adjustments for impaired intangibles	100	100
Provisions (except for bad debts)	(100)	(100)
Profit or loss from currency fluctuations	(100)	(100)
Income from shares in related, associated or other companies	(200)	(200)
Income from other securities and loans forming non-current financial investments	(200)	(200)
Other interest income and similar income	(800)	(800)
Adjustments for impaired long-term and short-term financial investments	100	100
Interest charges and similar costs	(100)	(100)
Profit or loss before adjustments for changes in current assets and short-term payables	300	300
Adjustments:		
Increase or decrease in receivables	100	(50)
Increase or decrease in inventories	100	(50)
Increase or decrease in trade payables	100	(100)

Gross cash flow from operations	600	100
Interest charges	(100)	(100)
Corporate income tax charges	(100)	(100)
Net cash flow from operations	400	(100)

Cash flows from investing include those related to the acquisition or disposal of all non-current assets or trade investments made with cash received from them, i.e. dividends and interest. This section shows the amount of new investment in assets intended to generate future income and cash flows.

Cash flows from investing – example

	2019 EUR	2018 EUR
Cash flows from investing		
Acquisition of shares in related, associated or other companies	(100)	-
Income from disposal of shares in related, associated or other companies	100	100
Acquisition of fixed assets and intangibles	(310)	-
Income from sales of fixed assets and intangibles	10	-
Loans made	(100)	-
Income from loan repayments	100	-
Interest received	50	-
Dividends received		50
Net cash flow from investing	(200)	100

(to be completed next week)