

*Abdelhafid Boussouf University Center – Mila*

*Institute of Economic, Commercial and Management Sciences*

*Departement of Economics*

*LECTURES ON : Statement Of Cash Flows*

*Addressed to 3<sup>RD</sup> year economics students – Second semester*

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The statement of cash flows is a financial statement that provides information about the cash inflows and outflows from operating, investing, and financing activities of a company over a specific period. Here's a simplified explanation of the statement of cash flows:

### ***1. Purpose:***

The statement of cash flows helps investors, analysts, and stakeholders understand how a company generates and uses cash during the reporting period. It complements the income statement and balance sheet by providing insights into cash movements that may not be evident from those statements alone.

### ***2. Components:***

The statement of cash flows typically consists of three main sections:

#### ***a. Operating Activities:***

This section reports cash inflows and outflows from the company's primary business operations, such as sales revenue, payments to suppliers, salaries to employees, and income taxes paid. It reflects the cash generated or consumed by the company's day-to-day operations.

#### ***b. Investing Activities:***

This section reports cash inflows and outflows from the purchase and sale of long-term assets, investments, and other non-current assets. It includes activities such as buying or selling property, plant, and equipment (PP&E), acquiring or disposing of investments, and lending or collecting on loans.

#### ***c. Financing Activities:***

This section reports cash inflows and outflows from the company's financing activities, including the issuance or repayment of debt, issuance or repurchase of equity shares, and payment of dividends to shareholders. It reflects the company's capital structure and changes in its financing sources.

### ***3. Preparation:***

To prepare the statement of cash flows, the company starts with the net income reported on the income statement and adjusts it for non-cash items and changes in working capital accounts to derive the cash flow from operating activities.

Cash flows from investing and financing activities are then determined based on changes in asset and liability accounts.

#### ***4. Format:***

The statement of cash flows typically follows one of two formats: the direct method or the indirect method. The direct method presents actual cash receipts and payments from operating activities, while the indirect method starts with net income and adjusts for non-cash items and changes in working capital to arrive at cash flows from operating activities.

#### ***5. Importance:***

The statement of cash flows provides crucial insights into a company's liquidity, solvency, and ability to generate cash to meet its financial obligations. It helps stakeholders assess the company's financial health, cash flow patterns, and ability to sustain operations and growth.

In summary, the statement of cash flows is a fundamental financial statement that provides valuable information about a company's cash inflows and outflows from operating, investing, and financing activities. It helps stakeholders evaluate the company's liquidity, solvency, and ability to generate cash, enhancing transparency and decision-making.