

41 Lecture - MGT101

Important Subjective

1. **What is the purpose of the cash flow statement?**

Answer: The cash flow statement shows the cash inflows and outflows of a company during a specific period. Its purpose is to provide information on the company's operating, investing, and financing activities and assess its liquidity and ability to meet its financial obligations.

2. **What is the formula for calculating cash flow from operating activities?**

Answer: Cash flow from operating activities = Cash received from customers - Cash paid to suppliers - Cash paid for operating expenses

3. **What is the difference between cash flow and net income?**

Answer: Cash flow is a measure of liquidity, while net income is a measure of profitability. Cash flow includes all cash inflows and outflows, while net income only includes revenue and expenses.

4. **What is the purpose of the operating activities section of the cash flow statement?**

Answer: The operating activities section of the cash flow statement shows the cash inflows and outflows from a company's core operations, such as revenue from sales, payments to suppliers, and payments for operating expenses.

5. **What is the purpose of the investing activities section of the cash flow statement?**

Answer: The investing activities section of the cash flow statement shows the cash inflows and outflows from a company's investments in long-term assets, such as property, plant, and equipment, and investments in other companies.

6. **What is the purpose of the financing activities section of the cash flow statement?**

Answer: The financing activities section of the cash flow statement shows the cash inflows and outflows from a company's financing activities, such as the issuance or repayment of debt, issuance or repurchase of equity, and payment of dividends.

7. **What is a non-cash transaction in the context of the cash flow statement?**

Answer: A non-cash transaction is a transaction that does not involve the exchange of cash, such as depreciation expense or a stock dividend. These transactions are added back to net income when calculating cash flow from operating activities.

8. **What is the difference between direct and indirect methods for preparing the cash flow statement?**

Answer: The direct method reports cash inflows and outflows directly, while the indirect method adjusts net income for non-cash transactions to calculate cash flow from operating activities.

9. **Why is the cash flow statement important for investors and creditors?**

Answer: The cash flow statement provides insight into a company's ability to generate cash and meet its financial obligations. Investors and creditors can use this information to assess the company's financial health and make informed investment or lending decisions.

10. **How can a negative cash flow from operating activities be improved?**

Answer: A negative cash flow from operating activities can be improved by increasing cash inflows from customers, reducing cash outflows to suppliers and for operating expenses, and improving operational efficiency to generate more cash from operations.