

42 Lecture - MGT101

Important Subjective

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

Answer: The purpose of the cash flow statement is to provide information on the inflows and outflows of cash and cash equivalents for a specific period, which helps investors and creditors to evaluate a company's liquidity, solvency, and financial performance.

2. **What are the three main sections of the cash flow statement?**

Answer: The three main sections of the cash flow statement are operating activities, investing activities, and financing activities.

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

Answer: The direct method reports actual cash inflows and outflows from operating activities, while the indirect method starts with net income and adjusts for non-cash transactions to arrive at cash flows from operating activities.

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

Answer: The cash flow statement provides information on a company's ability to generate cash, meet its financial obligations, and sustain its operations. This information helps investors and creditors to assess a company's financial health and make informed investment decisions.

5. **What does a positive cash flow from investing activities indicate?**

Answer: A positive cash flow from investing activities indicates that a company is generating cash from its investments in long-term assets, which can be a positive sign of growth and expansion.

6. **What does a negative cash flow from financing activities indicate?**

Answer: A negative cash flow from financing activities indicates that a company is repaying more debt or equity than it is receiving, which may indicate financial difficulties.

7. **What does a negative cash flow from operating activities indicate?**

Answer: A negative cash flow from operating activities indicates that a company is not generating enough cash from its core operations to meet its expenses, which may indicate financial difficulties.

8. **What are the benefits of using the indirect method of preparing the cash flow statement?**

Answer: The indirect method is easier and less time-consuming to prepare than the direct method, and it provides additional information on non-cash transactions and adjustments to net income.

9. **How can a company improve its cash flow from operating activities?**

Answer: A company can improve its cash flow from operating activities by reducing expenses, increasing sales and revenue, improving inventory management, and collecting receivables more quickly.

10. **What is the difference between cash and cash equivalents?**

Answer: Cash includes physical currency and deposits in bank accounts, while cash equivalents include short-term investments that can be quickly converted to cash, such as treasury bills and money market funds.