38 Lecture - MGT401

Important Subjective

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

Answer: The purpose of the cash flow statement is to provide information about an entity's cash inflows and outflows for a specific period.

- 2. What are the three categories of cash flows presented in the cash flow statement?

 Answer: The three categories of cash flows presented in the cash flow statement are operating activities, investing activities, and financing activities.
- 3. How are non-cash transactions reported in the cash flow statement?

 Answer: Non-cash transactions are not reported in the cash flow statement. However, they may be disclosed in the notes to the financial statements.
- 4. What is the direct method of preparing the cash flow statement?

 Answer: The direct method of preparing the cash flow statement involves calculating cash inflows and outflows directly from operating activities.
- 5. What is the indirect method of preparing the cash flow statement?
 Answer: The indirect method of preparing the cash flow statement involves adjusting net income

for non-cash items and changes in working capital to arrive at cash flows from operating activities.

6. How are cash and cash equivalents defined in the cash flow statement?

Answer: Cash and cash equivalents are defined as short-term, highly liquid investment

Answer: Cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible into cash.

7. What is the purpose of presenting the cash flow statement alongside the income statement and balance sheet?

Answer: The purpose of presenting the cash flow statement alongside the income statement and balance sheet is to provide users of the financial statements with a complete picture of an entity's financial performance, financial position, and cash flows.

8. How can the cash flow statement be used by investors and creditors?

Answer: Investors and creditors can use the cash flow statement to assess an entity's ability to generate cash flows and its liquidity position.

9. What are the limitations of the cash flow statement?

Answer: The limitations of the cash flow statement include the fact that it only presents cash flows for a specific period and does not provide information about an entity's long-term solvency.

10. What is the importance of preparing the cash flow statement in accordance with IAS 7? Answer: Preparing the cash flow statement in accordance with IAS 7 ensures that the information presented is reliable, relevant, and comparable across different entities.