

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 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.