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Direct cash flow statement format in excel

Pro members can track their course progress and get access to exclusive downloads, quizzes, and more! Find out more Already have an account? Get in here. Cash flow statements can be prepared using direct methods or indirect methods. The direct method is easier to interpret as it only lists all major operating receipts and cash payments during the period. Money that goes into business, usually from customers, is listed under cash inflows. Money coming out of businesses—usually in payments to employees, suppliers, etc.—is listed under cash outflows. After all sources of cash are registered, cash outflows are deducted from cash inflows to arrive at net cash flow from operating activities. After this, cash flow from investment and financing activities is added to arrive at a net increase or decrease in cash. Statement Method Direct From Cash Flow Template Throughout this series on financial statements, you can download the Excel template below for free to see how Bob Donut Shoppe uses the cash flow report to evaluate his business performance. Direct Cash Flow Statement Components The main difference between direct methods and indirect methods involves cash flow from operating activities. There is no difference at all in how cash flow from investment activities or financing activities is calculated under both methods. Operations This is the first component of the cash flow statement. Instead of starting with net income and adjusting it to a cash base using indirect cash flow methods, the direct method uses a straighter forward approach. It only calculates net income using a cash base. This will include accounting for all cash inflows and business outflows during daily operations. These include: Cash receipts from customers: This will generally exclude all sales made on credit and only record sales made in cash. Cash payments to suppliers: This includes all payments made to vendors or suppliers for the cost of goods sold in cash. Cash payments for operating expenses: All sales and administration costs including salespeople's salaries, utilities, factory leases, etc. have been paid in cash during the operating period. Cash payments for interest expense: Debt service is an important part of any business expense. All debt payments and interest payments made in cash will be deducted from the total cash inflows generated by the company's operations. Cash payments for income taxes: Taxes paid by companies can differ significantly compared to what's on the company's accounting book. Therefore, the tax burden paid in cash is deducted from the net inflows generated by the company. Adjustment Rules for Direct This rule may be required to apply for companies that have performed their accounting accrually throughout the period. The following steps can be used to items from accounting to cash base: Sales revenue: Adds a decrease or decreases the increase in account receivables. Cost of goods sold: Add an increase or reduction in inventory. Operating expenses: Adds an increase or reduction in prepaid costs. Depreciation charges: Do not include as it is a non-cash expense. Interest expense: Reduces the increase or adds to the decrease in the interest payable. Gain or loss on equipment sales: Do not include it because it is a non-cash expense. Income tax expense: Reduces or increases the decrease in income tax payable. Investment Activity As its own name suggests, this includes the acquisition and disposal of non-current assets or other investments. Understanding the nature of cash flow in this category is important for financial statement analysis. While negative cash flow from operating activities is an indication of poor performance by a company, negative cash flow from investment activities can mean that the company has made fixed long-term investments that will ultimately help its long-term health. Common examples will include: Purchase of fixed assets such as property, plant, and equipment (PP& E) - negative cash flow activity. Investments in long-term securities such as stocks or bonds – negative cash flow activity. Lend money to other individuals or institutions - negative cash flow activity. Sale of fixed assets such as property, factories and equipment (PP& E) – positive cash flow activity. Investment sales – positive cash flow activity. Proceeds from loans or insurance claim payments – positive cash flow activity. If the balance sheet of two periods is compared side by side and there is a difference in the value of the assets is not current, then that means there has been investment activity with-in that period. Financing Activities This is an activity that changes the size of a loan or equity for a company. Financing activities can include the following: Issuing new common shares - positive cash flow activities. Issue new debt offerings – positive cash flow activity. Share repurchases – negative cash flow activity. Dividend payment – negative cash flow activity. Repaying loans or debt – negative cash flow activity. Advantages and Disadvantages of the Second Direct Method this method is useful and whether one method is given preference over the other will depend on the company's requirements. The following are some of the advantages and disadvantages of preparing a cash flow statement using a direct method: Direct methods may be easier to use for smaller companies that have fewer cash-based transactions. Direct methods provide a more accurate picture for investors to determine a company's cash flow situation. Direct methods can prove time consuming and a very complicated process for larger organizations may have a lot of cash-based transactions and it is difficult to filter them all out. Direct Method Statement From Cash Flow Examples that we already have Bob's Donut Shoppe cash flow report is prepared by indirect method. Let's see how the cash flow statements prepared through the direct method will look: This template allows users to automatically compile a complete cash flow statement by simply entering the basic income statement and balance sheet information. This template includes current and comparative financial periods and detailed instructions on the calculation of line items included in the cash flow statement. This template includes cash flow statements that have been compiled based on direct and indirect methods. The following sheet is included in this template: Input - this sheet includes all the input cells used in compiling the cash flow statement. User input consists of income statements and balance sheet sections as well as some additional information needed to generate cash flow statements. Jump - This sheet contains a cash flow statement based on a direct method that is automatically calculated from the information entered on the Input sheet. No user input is required on this sheet. Indirect - this sheet contains cash flow statements based on indirect methods that are automatically calculated from the information entered on the Input sheet. No user input is required on this sheet. User Input All cells on the Input sheet that require user input are indicated by the yellow or green cell background in the column to the right of the appropriate input cell. The cells shown in yellow require positive values to be entered, while the cells shown in green require negative values to be entered. Cells that don't have yellow or green next to them contain formulas and should be left unchanged. If you're worried about replacing formulas in cells that don't require user input, we recommend that you protect the sheet with user-defined passwords. Only valid input cells will then be available for user input. The Protect Sheet feature can be accessed by selecting the Review tab on the ribbon and selecting the Protect Sheet option from the Changes section of the ribbon. You will then be prompted to enter and confirm the user-defined password (all input cells have been opened to allow user input). The default reporting period can be changed by simply entering the new year in cell B2. All other cells in this template that contain references to the reporting period are automatically changed. The additional information section requires the user to determine whether there are business acquisitions, disposal of property, factories and equipment or intangibles and long-term financial improvements occurring during the current and previous financial periods. The default input values in these cells can be replaced by nil values if they do not apply. You will also notice that three years of balance sheet information is required to generate a cash flow statement with Data. The Input Sheet also contains 4 total controls in rows 56 through 59 which must all be nil otherwise the cash flow statements will not be balanced. Each of these total controls is discussed in more detail in the Total Control subsection of the next instruction. Total Control Total balance control in row 56 has been added to the sheet to highlight imbalances in the balance sheet after entering the necessary balance sheet information. If an imbalance is encountered, the corresponding cells in this row will be highlighted in orange and that simply means your balance sheet is unbalanced which will also result in your cash flow statements not balancing. The total depreciation control in line 57 highlights the inconsistency between depreciation costs in the earnings report and accumulated depreciation costs in the balance sheet (with disposals taken into account). The cost of the income statement is added back in the cash flow statement which means that if these costs are inconsistent with the movement of the balance sheet in accumulated depreciation, the cash flow statements may be unbalanced as a result of these inconsistencies. The total amortization control in line 58 basically works in the same way as total depreciation control but is applied to amortization and amortization accumulation on tangible rather than depreciation on properties, factories, and equipment. The same principle applies – income statement fees are added back to the cash flow statement and if these costs are inconsistent with accumulated amortization movements, the cash flow statements may be unbalanced. Retained earnings controlled the total in line 59 tests whether balance sheet movements in the retained earnings line were consistent with earnings for the period. Otherwise, it indicates that other adjustments (such as for example the previous year's adjustment) have been made directly against retained earnings rather than being included in the earnings report. If such adjustments have been made, adjustments need to be included in the cash flow statement adjustment section on the Direct and Indirect sheets. Cash Flow Statement Calculation This instruction section provides more information about the calculations performed for each line item on the cash flow statement. Note that both cash flow statements are calculated automatically and no user input is required on the Direct or Indirect sheets. Cash receipts from customers This amount is calculated by adding the appropriate turnover amount to the receivable balance of the opening trading account and the receivable balance of the trading account that is part of the business acquisition for a certain period. The receivable balance of the closing account is then deducted from this total to calculate the amount of cash that has been received from the customer. Cash paid to suppliers and employees This amount by calculating the cash generated from operations and reducing it from receiving cash from customers. The calculation of cash generated from operations is discussed in the next section. Alternative calculation of cash paid to suppliers and employees is as follows: Profit before tax Less: Turnover Add: Depreciation Add: Amortization Add: Less interest expense: Investment income Added: Other non-cash items included in expenses (eg: equipment disposal or intangible loss) Add: Less inventory opening balance: Inventory closing balance Add: Less closing balance of trade payables : Trade payables open balance As you can see , this calculation is quite complicated and therefore we recommend calculating the cash generated from the operation and then only reducing the cash receipts from customers from this amount. Cash generated from operations The detailed calculation of this amount is included under the cash flow statements on the Direct sheet and at the top of the cash flow statements on the Indirect sheet. Calculation begins with profit and loss before taxation and all non-cash income & expenses and items included in other line items on the cash flow statement are then added back from the calculated amount. Investment income and interest expense are added back as these items are included separately on the cash flow statement. Depreciation, amortization, profit or loss from the sale of property, plant & equipment and profit or loss from the sale of intangible goods are non-cash items and therefore are also added back. The movement of the reserve balance sheet is also non-cash goods and is also added back. The net effect of the entire working capital balance is then deducted in the calculation because these items are also part of the operating cash flow. Note that the increase in receivables and inventory results from cash outflows and therefore should be reduced. However, increased debt results in cash inflows (due to fewer payments made to creditors) and therefore should be added to the calculation. Therefore, the decrease in debt is cash outflows and should be reduced. Note: The receivable and debt lines include several balance sheet items that have been consolidated into one line for cash flow statement purposes. Trade receivables, loans & Advances and other receivables are grouped together in receivables and trade payables, sales taxes, payroll accruals and other accruals grouped together in the debt line on the cash flow statement. Interest, Income Tax and Dividend These amounts are all calculated by adding the number of income statements in accordance with the appropriate opening balance (liabilities) and minus the corresponding closing balance of the provisions of this calculation. the amount is negative because all three items result in cash outflows. Business Acquisition This amount should be the total amount paid to obtain a new or existing business net from the amount of cash received from the business obtained. Also note that the amount included in each individual asset class must be added to the corresponding asset class opening balance in determining the increase or decrease in the balance of each asset class. For example, in determining inventory increase, the amount of inventory that forms part of the business acquisition part is added to the opening inventory balance on the balance sheet before deducting the closing inventory balance to determine the movement in inventory between the two financial years under review. Purchase of property, plant, and equipment Total cash purchase of property plant & equipment is specified as follows: Property, plant & equipment - closing balance at Less cost: Property, plant & equipment - unlock balance at Less cost: Property, plant & equipment - obtained through business acquisitions Add: Cost of assets sold during the period under review Less: Acquisition financed through financial lease Note that the calculated amount is cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be entered on cash outflow and must be included in cash outflow and must be included in cash outflow and must be included on cash outflow and must be included in cash outflow and must be included on cash outflow and must be negative amount and that financial lease does not result in direct outflow cash and therefore should be excluded from this line item. Financial lease payments must be included under the financing activities section of the cash flow statement. Also note that property, factory and equipment revaluations should also be excluded from the cash flow statements by reducing movement in revaluation reserves in the calculations above. Purchase of intangible assets This amount is calculated in the same way as the amount of factories, and equipment but based on intangible assets instead. Lease financing also plays no role in calculating intangible amounts as these are unique to property, factories & Equipment. Proceeds from the sale of equipment or intangibles This amount is the amount of cash received after the sale of equipment or intangible assets and is included in the Additional information section of the Input sheet. Investment acquisition This amount is calculated by deducting the closing investment balance from the opening of the investment balance and minus the amount received through the acquisition of the business. Investment income This amount is included in this section of the cash flow statement as it is not part of the operating cash flow. Note that investment income is reduced in cash resulting from operating calculations because it is included in the pre-tax profit and that is included as a separate line item on the cash flow statement. Proceeds from the issuance of stock capital This amount is calculated by deducting the opening of the stock capital balance from the capital balance of the closing shares. The increase in share capital resulted in cash inflows. Proceeds from long-term loans This amount in the Additional information section of the Input sheet and must include all long-term debts raised during the period under review, but must exclude all reduced financing leases from total acquisitions of property, plant & Equipment. Long-term loan payments This amount is calculated as follows: Long-term debt closing balance Less: Less long-term debt opening balance: Long-term debt included in business acquisitions Less: Long-term debt raised Less: Acquisition of financing lease Calculations should be included on the cash flow statement as a negative amount due to long-term debt repayment resulting in cash flow. Acquisition lease financing should be excluded as this amount is set against the property, factory acquisition & equipment and long-term debt raised is reduced because it is included in separate line items on the cash flow statement. Total Cash Flow Statement Control Total cash balance controls on line 34 on the Direct sheet and line 45 on the Indirect sheet have been included in order to highlight the imbalance between the closing cash balance on the balance sheet and the closing cash balance on the cash flow statement. If an imbalance is found on any of these sheets, the corresponding cell in this row will be highlighted in orange. Orange.

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