Chapter IV
Cash Flows Statement

36. The purpose of the cash flow statement

a) The purpose of the Cash Flow Statement is to provide information on the cash inflows and outflows over a period of time.

b) Cash flow statement should be prepared for the entire non-profit organization as one unit. But, depending on the nature and needs of non-profit organizations, the cash flow statement can be prepared in separate columns for each unique purpose operation and revenue divisions.

37. Preparation of cash flow statement

a) The cash flow statement has to be prepared properly disclosing the contents of the cash inflows and outflows pertaining to the period.

b) Cash flow statement shall disclose the cash flow from operating activities, investment activities and financing activities separately. Cash flow from these three activities is added to the opening cash balance to derive the closing cash balance.

38. Cash flow from operating activities

a) Operating activities include all transactions and events are not included in investing activities or financing activities.

b) Operating cash flows are not restricted donation income, grant income, fee income, investments income, patient care income. This includes operating income and revenue.

c) Operating cash outflow include labor costs, facility costs, other expenses, and operating expenses.

39. Method of preparation of cash flow statement

Cash Flow Statement can be prepared by applying the direct method or the indirect method.

a) Direct Method: Where by major classes of gross cash receipts and gross cash payments are disclosed;

b) Indirect Method: Whereby Profit or Loss/Statement of Income & Expenditure is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

c) Expenses not involving cash outflow: Depreciation and amortization cost, bad debts written off, impairment of assets, revaluation loss etc.

d) **Income not involving cash inflows:** Reversal of impairment, revaluation gain etc.

40. Cash flow from operating activities

The amount of cash flows arising from operating activities is a key indicator of the extent to which the operations of the non-profit organization have generated sufficient cash flows to repay loans, maintain the operating capability of the non-profit organization and make new investments without recourse to external sources of financing.

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the non-profit organization. Therefore, they generally result from the transactions and other events that enter into the determination of statement of Income and Expenditure. Examples of cash flows from operating activities are:

a) Grant received from various donors.

b) Cash receipts from the sale of goods and the rendering of services;

c) Cash receipts from royalties, fees, commissions and other revenue;

d) Cash payments to suppliers for goods and services;

e) Cash payments to and on behalf of employees;

f) Cash payments or refunds of income taxes; and

g) Cash receipts and payments from contracts held for dealing or trading purposes.

41. Cash flow from investing activities

The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Examples of cash flows arising from investing activities are:

a) Cash payments to acquire property, plant and equipment, intangibles and other long-term assets.

b) Cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

c) Cash lending and recovery activities;

42. Cash flow from financing activities

The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the entity. Examples of cash flows arising from financing activities are:

a) Cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- term or long-term borrowings;

b) Cash repayments of amounts borrowed; and

c) Cash payments by a lessee for the reduction of the outstanding liability relating to a lease.