



Leaving Cert Accounting

Free Notes

Cash Flow Statements



Cash Flow Statements

Cash flow statement can provide significant material in relation to what is truly occurring in a business in excess of the information that is found in either the income statement or the balance sheet. Evaluating this statement should not be a difficult task, actually it will soon become clear that the pros of understanding the sources and uses of a company's cash are greater than the costs of assuming some very clear-cut analyses.

Why companies prepare a cash flow statements

- To demonstrate the future cash inflows and outflows
- To aid with financial planning
- To project future cash flows
- To conform with legal requirements
- To demonstrate that profits do not necessarily equal cash
- To aid in analyzing the liquidity of the firm

Cash Flow Statements influence:

- **Suppliers** wish to understand if their customers are capable of paying if given credit.
- **Investors** want to gage growth potential in the future
- **Management** wish to understand if the cash made by the company will be enough to finance their expansion strategy
- **Employees** are keen to know the overall health of their employer as indicated by its capability to fund its operations.
- **Shareholders** wish to understand if the business is making sufficient cash to pay out dividends.

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