Financial Accounting
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Lecture – 97
7.9 Cash Flows from Investing Activities

In this video, we are going to discuss the second subsection of the Cash Flow statement. This subsection deals with investing activities of the business.

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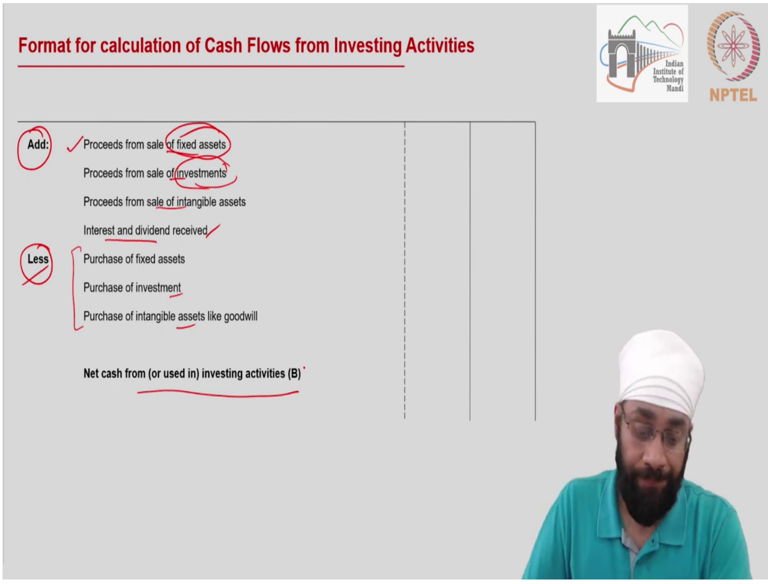

On the screen, you will see a template of the investing activities. First, we show the inflows and then we have the outflows. The inflows can result from proceeds of sale of any fixed assets, any investments being sold by the company, any sale of intangible assets, or any income received on the financial investments made by the company. Also, there is a possibility that a company gives out its fixed assets on rental basis, on lease basis: any income received can also be shown here.

The outflows of the cash from investing activities will include the purchase of various fixed assets. Any financial investments or any intangible assets and then you have the net cash resulting from the investing activities. So, compared to the first subsection where we discussed the operating activities which was more complex, this subsection is relatively simple.

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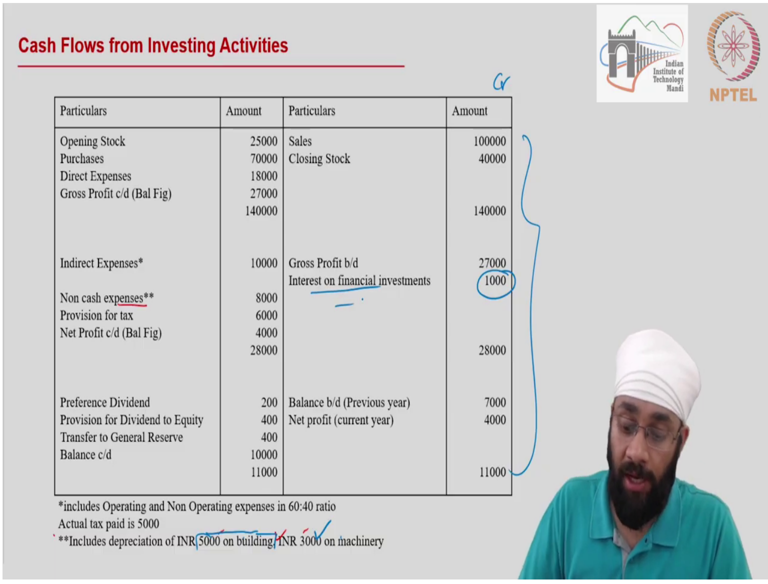

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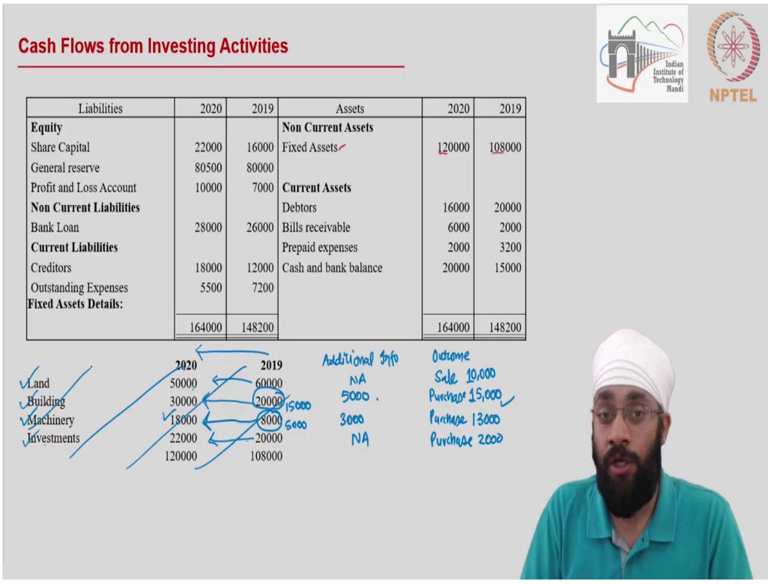

On the screen, you see the same profit and loss account and I also have the balance sheet. We have used this balance sheet and income statement in the previous videos as well. However, there is more information that has details here, in order to discuss the investing activities. The additional information that we have now is on the depreciation amount.

So, it says that non-cash expenses are depreciation and the breakdown of this depreciation has been presented. In addition to this we have some breakdown of the fixed assets. The fixed assets are 108,000 and 120,000 and they have been broken down into four different fixed assets because we need to look at which asset was bought or sold during the year. So, we have this information available to us.

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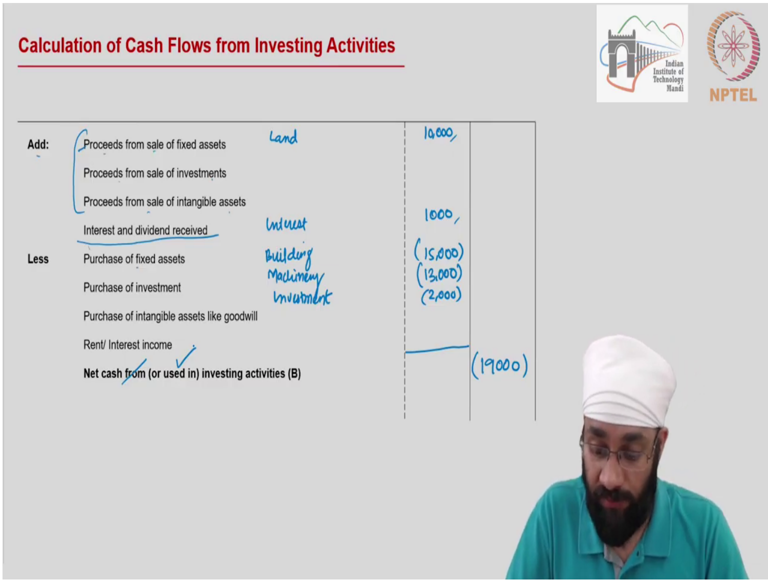

So, using this format we are going to look at each of these items which may go here and accordingly prepare this sub segment. In the inflows we will have proceeds from sale of fixed assets. Let us go to the balance sheet and identify any fixed assets which may have been sold during the year. So, in the fixed assets we have the details for 2019 and 20, so, we should be careful in judging the movement and the direction of change.

So, for land we have 60,000 in the beginning and 50,000 in the end. That means the account balance of the land or the book value of the land is going down which could mean that the land is being sold. So, I am going to write additional information here. We do not have any other information about land, even if you look at the depreciation this is on building and machinery. So, on land we have no additional information. Therefore, the outcome is that we are going to treat this change, the reduction in the value of the land as a sale of land worth rupees 10,000. And, we are going to bring this amount to the sale of land sale of fixed assets. So, we are going to write land 10,000 and done, with the first fixed asset. Let us go to building which increases from 20,000 to 30,000. We could easily categorize this as the purchase of a new building worth 10,000.

However, we have some more information about the building which is as follows. There is a depreciation of 5,000 on building which means depreciation would be charged at the beginning of the year. Thus, the value of the building at the end of the year would have come down to 15,000 only. However, at the end of the year you have 30,000 in the balance, in the building account. Therefore, the additional 15000 is what is the purchase. So purchase is not only 10,000 but 15,000 because it is going up by 10,000 but there is also a reduction of 5,000 in the balance, in the book value of the building. Therefore, we are going to treat this as the purchase of building 15000. So, I am going to write this in the outflows; purchase of fixed assets building, the amount is 15000; there you go. Then, we have machinery; machinery was 8,000 and now it is 18,000, again a 10,000 increase could indicate a purchase of machinery during the year.

However, we know there was a reduction in the value of machinery due to depreciation and the amount was 3,000. So, this 3,000 would have reduced this value of 8,000 to only 5,000. Therefore, at the end of the year if the value of machinery is 18,000 that means 13,000 rupees worth of machinery has been purchased. So, I am going to show a 13,000 as the purchase of machinery and purchase is an outflow.

So, I will put parentheses for both the amounts, done. And, then you have investment. Now, investments are going up, additional 2,000; do we have any information about investment? We do not have any other information about changes in the value of the investment. So, we are going to treat the whole 2,000 as the purchase; 2,000 is the purchase of new investment, money has been put into some financial investment 2,000. I will write investment; so, done and that is it. So, now we have covered all this additional information about the investing activities. So, one more time investing activities can include sale of fixed assets, proceeds from sale of investment, intangible assets and there can be interest or dividend received.

Now, we have to look for interest and dividend received. We have covered all the possible sources and uses except for interest and dividend that could be received on the financial investments. Now, if there is any income from the financial investment that should be shown in the profit and loss account and there you go: you have an interest on the financial investment this is 1,000. So, we should just show it here, 1,000 as interest; this is the income. Other than this, on this credit side where all the incomes are shown, there is no other income that has been shown.

Therefore, you cannot add any other inflows as a result of financial income of the financial investments. If there was any rent received on the fixed assets that would also be mentioned here and you can just pick it up from the income statement. That is it, that is all the information that was required and we are going to just sum this up and you will have the net cash flows from or used in investing activities.

So, it turns out that the negative numbers are more; this is 30,000 and then positive numbers are only 11,000. So, you have 19,000; let me write it here, 19,000 outflow, this is the net result of investing activities. You are not getting any cash; you are using the cash in the investing activities of the business.

There you go, that is it; this is how you figure out the changes in the fixed assets in the investments. And, you decide whether these are purchases or sales and you figure out any incomes on the investments and you get the cash flows used in or cash flows from investing activities of a business during a financial year.

I will see you in the next video.