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CASE STUDY – FINANCE

CS- 21-009

Understanding the complexity of a Cash- Flow Statement

Author(s): Vibha Tripathi

vibha.tripathi@ahduni.edu.in

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Ahmedabad University, Commerce Six Roads, Navrangpura, Ahmedabad-380009, Gujarat, INDIA
Email: workingpaper@ahduni.edu.in



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Author(s): Vibha Tripathi

**Address: Ahmedabad University, Commerce Six Roads, Navrangpura, Ahmedabad,
Gujarat, India.**

www.ahduni.edu.in

Email: vibha.tripathi@ahduni.edu.in

Abstract (150 words):

The management of Cisco Ltd is frustrated because the parent company, CRW Corporation, repeatedly rejects Cisco's Capital Spending requests citing reasons of cash flows. So in early 2021, they decided to approach Mr David a senior Financial Analyst in the finance department to analyse the reasons for the rejection of their requests. Mr David decided to assign the task of preparing a Cash flow statement to Ms Kelly who was recently appointed as an intern in their firm. Kelly was a dedicated and hardworking intern but was nervous about the preparation and unsure of the format and importance of a CFS as this was her first assignment. So Mr David provided her a detailed note on cash flow statement that was used by the firm. However, before preparing the cash flow statement she had questions like: What is the meaning of the term cash flow? What are the important terms in cash flow statement? For which enterprises preparation of cash flow statement is mandatory? Why cash flow is divided in the three major activities? What are the three categories of Adjustments a firm has to make to convert net income to cash flows from operations? Why there were two methods for preparing cash flow statements? Contrast the purpose of income statement with that of cash flow from operations. Where do we locate the components of cash flow statement? Is a cash flow statement important for analysing a company's true performance?

Keywords: Financial statement analysis, Cash Flow analysis, Quality of Earnings