

Glossary of key terms

direct method A method of calculating cash flow as the net of operating cash receipts and payments that is summarised for inclusion in the cash flow statement. It is a time-consuming process that is not straightforward and is not widely used by UK companies.

financing The section of the cash flow statement that shows the long-term funds raised by or repaid by the company during the year.

indirect method A method of calculating cash flow which uses the starting point of operating profit, since it is the operating activities of sales and costs that normally give rise to the majority of cash inflows and cash outflows of an entity. Operating profit for the period must then be adjusted for depreciation, as well as movements in stock, debtors and creditors over the same period to derive the net cash flow from operating activities.

liquid resources Liquid resources, or liquid assets, are cash, and other assets readily convertible into cash, for example short-term investments.

net debt The total borrowings of the company net of liquid resources. Net debt excludes non-equity shares because, although similar to borrowings, they are not actually liabilities of the entity. Net debt excludes debtors and creditors because, whilst they are short-term claims on and sources of finance to the entity, their main role is as part of the entity's trading activities.

repayable on demand This refers to the definition of cash where there is a loss of interest if cash is withdrawn within 24 hours.

reporting entity A public or private limited company required to file its annual report and accounts with the Registrar of Companies.

working capital requirement Stocks plus debtors plus prepayments less creditors and accruals. This investment in the operating cycle represents the financial resources specifically required for the company to purchase and create stocks and while it waits for payments from its customers.