Part 2

Cash Flow Statement

The cash flow statement describes the sources and uses of cash for the period. It is organized according to the company's major activities.

Cash flow analysis identify the sources and uses of cash throughout the period in question to explain how changes in balance sheet accounts and income are affecting cash and cash equivalents in the company.

If the company is consistently generating more cash than it is using; this is a positive outcome for the company and creates a higher shareholder value.

Section 1 – Operating Activities

Operating activities include cash flows that are the result of the regular day to day operations of the company		
Cash Flows from operating activities:		
Cash Received from clients	$27,000	
Cash paid for supplies	(3,000)	
Cash paid for rent	(5,000)	
Cash paid for wages	(6,300)	
Cash paid for utilities	(2,700)	
Cash flows from operations		$10,000

Section 2 – Investing Activities

Investing activities that are the result of the purchase or sale of capital assets and long-term investments		
Cash Flows from Investing Activities		
Sale of Equipment	2,000	
Purchase of Equipment	(15,000)	
Cash flows from Investing Activities		(13,000)

Section 3 – Financing Activities

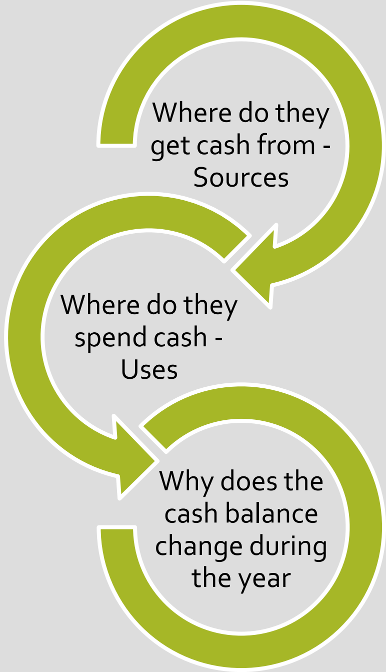
Financing activities which provide long term sources and uses of capital to the company, through issuance of stocks and bonds and the payments of dividends.		
Cash Flows from Financing Activities		
Withdrawal by Owner	(7,200)	
Cash flows from Financing		(7,200)
Net decrease in Cash		(10,200)
Cash Balance January 1		111,000
Cash Balance January 31		$100,800

Did you notice how the cash flow statement links back to the balance sheet? (find the cash balance)

Let's Practise

Take 10 minutes to complete answering the questions or for a quick review if you have already finished them; we will review them together at the end of the time.

Think about a business you are familiar with.



Cash Flow Statement Analysis – Indirect Method

Cash is an extremely important and useful asset in business. The cash flow statement provides information about a company's cash inflow and outflows. It helps us plan for the day to day activities as well as allowing the planning of any long-term investment decisions and contingency planning.

As previously mentioned the cash flow statement is divided into three types of activities - operating, investing and financing.

Operating Activities

This section investigates activities that determine net income, as well as changes in current assets and current liabilities.

Common cash inflows and outflows of these activities are:

Inflows:

- Sale of goods and services
- Rent, interest and dividends
- Other operating inflows

Outflows:

- To suppliers of goods and services
- Payments of salaries and wages
- Payments for interest, taxes and other expenses

The indirect method adjusts net income for three types of adjustments:

- Adjustments for changes to non-cash current assets and current liabilities as they relate to operating activities
- Adjustments for activities found in the operating section for items that are not related to cash inflows or outflows
- Adjustments to eliminate any gains or losses resulting from the other two activities as they do not belong in this section, but they have affected the net income calculation.