

# BA870 – Lecture 1

## Overview of Statement of Cash Flows

This tutorial should be viewed in conjunction with tutorials on 2 other main statements:

- Balance Sheet
- Income Statement

# Financial Statements

## Parts of Financial Statements (3 Main Statements)

- Balance Sheet (Statement of Financial Position)
- Income Statement (Statement of Operations)
  - Captures Actions
    - Deliver Product or Services → Revenues
    - When Product/Service Delivered → Report Expenses
- **Statement of Cash Flows**
  - Captures actual cash received from customers or paid to suppliers
  - But, also captures other types of cash transactions
- Not just a list of data!
  - 3 Statements are mathematically connected

# Part 3: Statement of Cash Flows

- **Statement of Cash Flows**

- Reports cash transactions during a reporting period (such as a year)
  - *Cash inflows and outflows over 12 months ended Dec. 31, 2020*
- 3 main categories of cash flows:
  - Operating Activities
  - Investing Activities
  - Financing Activities

# Statement of Cash Flows

- **Operating Activities**

- Cash inflows in period (“cash revenues”) from customers related to past, current or future completion of deliveries of products or services
- Cash outflows in period (“cash expenses”) related to payments made to suppliers, employees required to deliver a product or service in the past, today or in the future

- **Investing Activities**

- Cash outflow to buy land, equipment, and buildings for business
- Cash inflow from sale of land, equipment, and buildings

- **Financing Activities**

- Cash received from investors (shareholders) or lenders (debt)
- Cash paid back to investors (shareholders) or lenders (debt)

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# Statement of Cash Flows

Operating Section  
Starts with Net Earnings  
from "Income  
Statement"

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

Condensed Consolidated Statements of Cash Flows (Unaudited) - USD (\$) \$ in Millions	6 Months Ended	
	Dec. 31, 2019	Dec. 31, 2018
<b>Operating activities:</b>		
Net earnings	\$ 388	\$ 392
<b>Adjustments to reconcile net earnings to net cash provided by operations:</b>		
Depreciation and amortization	88	88
Stock-based compensation	19	18
Deferred income taxes	12	2
Other	21	25
<b>Changes in:</b>		
Receivables, net	86	68
Inventories, net	(3)	(74)
Prepaid expenses and other current assets	(9)	(15)
Accounts payable and accrued liabilities	(80)	(43)
Operating lease right-of-use assets and liabilities, net	7	
Income taxes payable	(31)	(12)
Net cash provided by operations	498	449
<b>Investing activities:</b>		
Capital expenditures	(111)	(86)
Other	13	9
Net cash used for investing activities	(98)	(77)
<b>Financing activities:</b>		
Notes and loans payable, net	106	33
Treasury stock purchased	(195)	(243)
Cash dividends paid	(266)	(245)
Issuance of common stock for employee stock plans and other	17	117
Net cash used for financing activities	(338)	(338)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(1)	(3)
Net increase (decrease) in cash, cash equivalents, and restricted cash	61	31
<b>Cash, cash equivalents, and restricted cash:</b>		
Beginning of period	113	134
End of period	\$ 174	\$ 165

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# Statement of Cash Flows

Then remove any non-cash items that were included in Net earnings.

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

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# Statement of Cash Flows

This then gives us Net Cash Flow from Operations (Think of it as Cash Revenues – Cash Expenses).

For Clorox, it had \$498 million in cash received by Clorox from Operations for the 6 months ended December 31, 2019

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

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End of period	\$ 174	\$ 165

# Statement of Cash Flows

The next section is the Investing Section

For the the 6 months ended December 31, 2019, Clorox paid \$98 million in cash to Invest in expanding its business (This is the Net Amount). Note the a number in brackets is a negative number:

(98) means \$98 million of cash paid by the company

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

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# Statement of Cash Flows

The 3<sup>rd</sup> section is the  
Financing Section

For the the 6 months  
ended December 31, 2019,  
Clorox paid back \$338  
million in cash to its lenders  
and investors (This is the  
Net Amount). Note the a  
number in brackets is a  
negative number:

(338) Means \$338 million of  
cash paid by the company

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

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# Statement of Cash Flows

At the bottom of the Statement of Cash Flows, we can see the change in cash during the 6 months ended December 31, 2019:

Beginning Cash = \$113M

Operating Cash Flow = + 498M

Investing Cash Flow = - \$98M

Financing Cash Flow = -\$338M

Ending Cash = \$174M

Note that this is connected with Clorox's Balance Sheet: It reported \$174M in Cash as Assets on its Balance Sheet dated December 31, 2019.

10-Q
Cover
Cover Page
Financial Statements
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited)
Condensed Consolidated Balance Sheets (Unaudited) (Parenthetical)
Condensed Consolidated Statements of Cash Flows (Unaudited)
Notes to Financial Statements
Accounting Policies
Notes Tables
Notes Details
All Reports

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