Dry Supply's Statement of Cash Flow, 2017

	2016	2017
Cash Flow from Operating Activities		
Net income		23
Adjustments to reconcile net income to net cash		
Depreciation		13
Changes in current assets and current liabilities		
Accounts receivable (increase) decrease		1
Inventory (increase) decrease		5
Accounts payable – trade increase (decrease)		(15)
Income taxes payable increase (decrease)		1
Accrued bonuses increase (decrease)		1
Net cash provided by operating activities		**29**
Cash Flow from Investing Activities		
Proceeds from sale of equipment		0
Payment received on note for sale of plant		0
Cash value life insurance decrease (increase)		(2)
Capital expenditures		(17)
Net cash provided by investing activities		**(19)**
Cash Flow from Financing Activities		
Proceeds from sale of stock		0
Proceeds from short-term debt		(9)
Proceeds from subordinated debt		9
Repayment of debt		0
Payment under capital lease obligations		0
Dividends paid		0
Net cash provided by financing activities		**0**
Net increase (decrease) in cash		10
Cash at beginning of year		12
Cash at end of year		22

The indirect method SCF, which starts with net profit (loss) and then uses the calculated changes between two balance sheets, is the basis for a more streamlined way to look at cash flow. By completing summarized cash flow format, a lender can determine how the business used the profits, how it structured its debt, and potential questions to ask the business.

The chart below shows a completed abbreviated cash flow report for Dry Supply for 2017.

Cash Sources—Inflows			**Cash Uses—Outflows**	
Cash profit (net income plus depreciation)	Rs.36	-or-	Cash loss (net loss, offset by depreciation expense	Rs.0
Decrease in accounts	1	-or-	Increase in accounts	0
Decrease in inventory	5	-or-	Increase in inventory	0
Increase in accounts payable	0	-or-	Decrease in accounts payable	15
Increase in notes payable	0	-or-	Decrease in notes payable	9
			Dividends	0
Disposals of fixed assets	0	-or-	Fixed asset additions	17
Increase in subordinated debt	9	-or-	Decrease in subordinated debt	0
New capital stock issued	0	-or-	Increase in treasury stock	0
Decrease in all other assets	0	-or-	Increase in all other assets	2
Increase in all other liabilities	2	-or-	Decrease in all other liabilities	0
Total cash sources – inflows	Rs.53		Total cash uses – outflows	Rs.43
Result: Decrease in cash	Rs.0	-or-	Increase in cash balance	Rs.10

Using the report, we can see that Dry Supply had Rs.53,000 of cash inflows and Rs.43,000 of cash outflows, for a resulting Rs.10,000 increase in its cash balances. The primary cash inflow was from cash profit. Additionally, Dry Supply decreased inventory by Rs.5,000, which was used to partially reduce accounts payable Rs.5,000. The remaining Rs.10,000 reduction to accounts payable came from cash profits. Dry Supply purchased Rs.17,000 of fixed assets, also paid from cash profits. It appears that the subordinated debt increase of Rs.9,000 was used to pay down notes payable by Rs.9,000.

By using an abbreviated cash flow report, a lender quickly can answer the following questions about cash flow as related the Commercial Lending Decision Tree concept:

- What is causing more cash to go out than to come in? (The cause of borrowing)
- What has changed in the company’s business operations? (The repayment sources)
- What is the possibility that these changes will continue in the future? (The risk of nonpayment)
- What is the proper loan structure? (The term of the loan)