Cash Flow Statement

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Financial Statements

Need for Financial Statements

- Audited by government agencies etc. to ensure accuracy and for tax purposes
- Gives a picture of company's financial health over a period of time at a point of time
- The performance of a company

Components

- Balance Sheet
- Income Statement
 - Cash Flow Statement

Balance Sheet

Assets

- Cash and cash equivalents
- Accounts receivables
- Inventory

Liabilities

- Debt including long-term debt
- Rent, tax, and utilities
- Wages and dividends payable

Equity

Amount of money if all stocks are liquidated

Balance Sheet

- Overview of assets, liabilities, and stockholders' equity as a snapshot in time
- Assets = (Liabilities + Equity)

Income Statement

- Financial Statement showing company's profit.
- Statement displays:
 - Revenue
 - Expenses
 - Profit
- Covers a range of time

Cash Flow Statements

A key principle: Profit \neq Cash

- Profit does not necessarily mean the cash left over after all expenses are paid
- Accounting is 'Accrual' based i.e. revenue is recorded even if cash is not transferred
- Concept of credit involved
- Therefore cash flow statements needed to keep track of actual cash

Cash flow statement

- Summarizes amount of actual cash received and paid during an accounting period
- Provides information related to actual liquidity of the company and capital available to run operations
- Does not include future streams of cash, i.e. credit

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in millions)

	Year Ended December 31,					
		2015		2016		2017
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$	14,557	\$	15,890	\$	19,334
OPERATING ACTIVITIES:						
Net income		596		2,371		3,033
Adjustments to reconcile net income to net cash from operating activities:						
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs		6,281		8,116		11,478
Stock-based compensation		2,119		2,975		4,215
Other operating expense, net		155		160		202
Other expense (income), net		250		(20)		(292)
Deferred income taxes		81		(246)		(29)
Changes in operating assets and liabilities:						
Inventories		(2,187)		(1,426)		(3,583)
Accounts receivable, net and other		(1,755)		(3,367)		(4,786)
Accounts payable		4,294		5,030		7,175
Accrued expenses and other		913		1,724		283
Unearned revenue		1,292		1,955		738
Net cash provided by (used in) operating activities		12,039		17,272		18,434
INVESTING ACTIVITIES:						
Purchases of property and equipment, including internal-use software and website development		(5,387)		(7,804)		(11,955)

Repayments of long-term debt and other

Principal repayments of capital lease obligations

Principal repayments of finance lease obligations

Foreign currency effect on cash and cash equivalents

Net increase (decrease) in cash and cash equivalents

CASH AND CASH EQUIVALENTS, END OF PERIOD

Net cash provided by (used in) financing activities

FINANCING ACTIVITIES: Proceeds from long-term debt and other

Net income	596	2,371	3,033
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INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development	(5,387)	(7,804)	(11,955)
Proceeds from property and equipment incentives	798	1,067	1,897
Acquisitions, net of cash acquired, and other	(795)	(116)	(13,972)
Sales and maturities of marketable securities	3,025	4,733	9,988
Purchases of marketable securities	(4,091)	(7,756)	(13,777)
Net cash provided by (used in) investing activities	(6,450)	(9,876)	(27,819)

353

(1,652)

(2,462)

(3,882)

1.333

15,890

(121)

(374)

621

(354)

(3,860)

(147)

(212)

19,334 \$

(3,740)

3,444

16,231

(1,372)

(4,799)

(200)

713

9,860

1,188

20,522

Vear Ended December 31

Sections of a Cash Flow Statements

Operating Activities

- Amount of money company from ongoing regular business activities
- Depicts cash generating abilities of the company
- Basically net cash from operating activities are focused upon

Example

OPERATING ACTIVITIES:			
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Investing Activities

- Account of cash used in the purchase of non-current assets.
- Investing activity is an important aspect of growth and capital.

Some Investing Activities Are:

- Purchase of fixed assets—cash flow negative
- Purchase of investments such as stocks or securities—cash flow negative
- Lending money—cash flow negative
- Sale of fixed assets—cash flow positive
- Sale of investment securities—cash flow positive
- Collection of loans and insurance proceeds—cash flow positive

Example

Cash flow statement from Apple Inc on June 29,2019.

Negative Cash Flow

- Purchases of marketable securities for \$21.9 billion
- Payments acquiring property, plant, and equipment for \$7.7 billion

Positive Cash Flow

- Proceeds from maturities of marketable securities for \$26.7 billion
- Proceeds from the sale of marketable securities for \$49.5

Example

INVESTING ACTIVITIES:

Purchases of property and equipment, including internal-use software and website development	(5,387)	(7,804)	(11,955)
Proceeds from property and equipment incentives	798	1,067	1,897
Acquisitions, net of cash acquired, and other	(795)	(116)	(13,972)
Sales and maturities of marketable securities	3,025	4,733	9,988
Purchases of marketable securities	(4,091)	(7,756)	(13,777)
Net cash provided by (used in) investing activities	(6,450)	(9,876)	(27,819)

Financing Activities

Cash Flow from **Financing Activities**

Issue/Repurchase Equity Issue/Repurchase Debt **Dividend Payments** And Other Items

Financing Activities

- Focuses on how a firm raises capital and pays it back to investors through the capital markets.
- Include paying cash dividends, adding or changing loans, or issuing and selling more stock.
- Measures the flow of cash between a firm and its owners and creditors.

Some financing activities are:

- Receiving cash from issuing stock or spending cash to repurchase shares
- Receiving cash from issuing debt or paying down debt
- Paying cash dividends to shareholders
- Receiving cash from issuing hybrid securities, such as convertible debt

Example

FINANCING ACTIVITIES:			
Proceeds from long-term debt and other	353	621	16,231
Repayments of long-term debt and other	(1,652)	(354)	(1,372)
Principal repayments of capital lease obligations	(2,462)	(3,860)	(4,799)
Principal repayments of finance lease obligations	(121)	(147)	(200)
Net cash provided by (used in) financing activities	(3,882)	(3,740)	9,860

Story by Cash Flow

- Useful to investors because, under the notion that cash is king, it helps in understanding a company's overall performance.
- It provides clarity of losses from operations or financing investments

More about Cash Flow Analysis

- Cash Transactions are included
- Complements income statement
- Not a test of total financial position
- Helps in taking loans

In a nutshell

Profit and loss account of a firm may

show robust topline and bottomline,

it is cash flow statement that reveals liquidity



so necessary for survival and growth of organisation.

DEDICATION:

This presentation is dedicated to



Dedicated to: The Accountants



References:

- Sites to Visit
 - https://www.investopedia.com/terms/f/financial-statements.asp
 - https://www.investopedia.com/investing/what-is-a-cash-flow-statement/
 - Cash flow statement example from <u>https://cdn.corporatefinanceinstitute.com/assets/amazon-statement-of-cash-flows.png</u>
 - https://www.investopedia.com/terms/c/cash-flow-from-operating-activities.asp
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Thank you!