

Sketch the procedure to derive cash flow from earnings?

⇒ Start with net income (earnings)

\* net income is the profit of the company after all expenses taxes. and indirect have been deducted from total revenue. It's the starting point. Calculated cash flow

⇒ add back non cash expenses

\* Depreciation and amortization

These are accounting expenses that reduce net income but do not involve actual cash flow ~~from~~ add them back to net income

\* Other non-cash charges and other.  
Stock based compensation.  
ment changes should also be added  
back.

② Adjust for changes in working capital

\* Increase in current assets.  
(excluding cash) If current assets (A)

Accounts receivable Inventory  
Subtract the change from because it  
represents use for cash.

\* decrease in current assets if  
current assets decrease add the change  
to net income as it represents a  
source of cash.

\* Increase in current liability.

[excluding debt]

Accounts payable  
Increase add to change in  
income because it represents a  
source of cash.



② Decreases in changes in current assets  $\Rightarrow$  current assets decrease  
add the changes to net income as the changes as source of cash

③ Decreases in changes current liability:-  
current liability decreases so  
subtract the changes from net income  
as it represent as use of cash

④ Subtract capital expenditures:-  
Cash ex refers to fund used to  
by used by company to acquire  
upgraded and maintained physical  
assets. Cash expenditures - capital  
equipment there are.

⑤ Non-operating activities:-

if there any gains losses from  
non-operating they should be adjusted  
as the non-operating activity.



⑦ Other non-operating income:-  
Any income or expenses,  
not revealed to core operating,  
should be adjusted as well.

Changes in adjust working capital

accounting, Receivable:- Change.  
any increases in the accounting.

receivable sales made but not yet  
collected in cash.

Inventory captured:- Increases  
in inventory, or add any decreases

This represent goods product. The  
or purchased that have not any  
been sold.

Account payables:- add any.

Increases Account payable. or.

subtract any decreases this made.

On credit that have not yet  
been paid in cash.

Other working Capital:-

Items like accrued expenses  
prepaid expenses etc.

Adjust for capital expenditures (capital

subtract Capital expenditures.

debit cash spent on capital  
expenditures as this a cash

outflow for purchasing of long-term  
assets.

~~Operating Cash Flow~~ Consider  
~~Operating~~ Cash flow:-

Interest and taxes paid

Actual cash paid for interest  
and taxes - difference from what  
was recorded in net income.

dividend received or paid:-



dividend paid year are subtracted.  
On cash available to equity holders.

Calculated cash flow from operating:  
Combine all the adjustments to  
arrive at the cash flow from  
operating activity (CFO) which  
represents the cash generated  
used by the company's core  
business operations.

