Sketch the procedure to derive the Cash flow from earnings.

A Cash Flow statement tracks the inflow and outflow of cash, providing insights into a company's financial health and operational efficiency.

* Start with Net Income (Earnings) from the Income Statement.

* Add back Depreciation and Amortization (Non-Cash Expenses) to Net Income, as they don't affect Cash flow.

* Adjust for changes in working Capital:

  • Increase in Accounts Receivables: Subtract
  • Decrease in Accounts Receivables: Add
  • Increase in Accounts Payable: Add
  • Decrease in Accounts Payable: Subtract

* Account for Capital Expenditure (CapEx):
  - Subtract CapEx from Net Income.

* Consider Other Non-Cash Items:
  - Add back Impairment Losses, Loss on Sale of assets etc.

* Calculate Cash Flow from operations (CFO):
  Net Income + Depreciation + Amortization + working Capital Changes + Other Non-Cash Items.