

5th WEEK ASSIGNMENT

classmate

Date _____

Page _____

- Sketch the procedure to derive the cash flow from earnings

→ Net Income

Begin with the company's Net Income from the Income Statement.

→ Back Non-Cash items

Adding back depreciations and Amortization Expenses (found on the Income Statement)

→ Working Capital changes

Subtract Increases in Working Capital accounts

(Accounts Receivable, Inventory)

Add Decreases in Working Capital accounts.

→ Calculate cash flow Earning

Add the results from steps 2-4 to the Net Income from step 1.

→ formula

Cashflow Earnings = Net Income + Depreciation & Amortization + Other Non-Cash Items - Increases in Working Capital Expenditures.

following these procedures we can derive cash flow earnings, which represents a company's true earnings, adjusted for non-cash items and changes in working capital and capital expenditures.

~~Handwritten signature/initials~~