Analysing the cash flow statement

A cash flow statement breaks down how a company raised funds and spent those funds. It is generally separated into 3 sections, Operations, Financing and investing. As a rule if a company brings in enough money to cover its expenses then it is doing well. One of the most important things when looking to invest in a company is said company’s ability to generate enough cash to cover its expenses. Even if a company is displaying profits on the income statement, this might not necessarily translate into cash that can be used to balance bills and outgoing payments.

For the year ended 31 December

|  | **2011 £m** | **2010 £m** |
| --- | --- | --- |
| Profit for the year | 1,256 | 1,081 |
| Taxation expense | 211 | 417 |
| Share of results of equity accounted investments | (131) | (133) |
| Net finance costs | 117 | 192 |
| Depreciation, amortisation and impairment | 751 | 899 |
| Profit on disposal of property, plant and equipment | (17) | (13) |
| Profit on disposal of investment property | (21) | - |
| Loss/(profit) on disposal of businesses | 15 | (53) |
| Cost of equity-settled employee share schemes | 68 | 58 |
| Movements in provisions | (148) | 101 |
| Decrease in liabilities for retirement benefit obligations | (287) | (452) |
| (Increase)/decrease in working capital: |  |  |
| Inventories | (85) | 318 |
| Trade and other receivables | 191 | 183 |
| Trade and other payables | (969) | (1,063) |
| **Cash inflow from operating activities** | **951** | **1,535** |
| Interest paid | (212) | (221) |
| Taxation paid | (257) | (352) |
| **Net cash inflow from operating activities** | **482** | **962** |
| Dividends received from equity accounted investments | 88 | 71 |
| Interest received | 32 | 48 |
| Income from financial assets at fair value through profit or loss | 4 | - |
| Purchases of property, plant and equipment, and investment property | (359) | (408) |
| Purchases of intangible assets | (24) | (19) |
| Proceeds from sale of property, plant and equipment, and investment property | 115 | 70 |
| Purchase of subsidiary undertakings (net of cash acquired) | (532) | (179) |
| Purchase of equity accounted investments | - | (2) |
| Equity accounted investment funding | (1) | (7) |
| Proceeds from sale of subsidiary undertakings (net of cash disposed) | 124 | - |
| Proceeds from sale of equity accounted investments | - | 93 |
| Proceeds from sale of financial assets at fair value through profit or loss | 152 | - |
| Proceeds from sale of other investments | 1 | - |
| Net proceeds from sale/(purchase) of other deposits/securities | 265 | (40) |
| **Net cash outflow from investing activities** | **(135)** | **(373)** |
| Capital element of finance lease rental payments | - | (7) |
| Proceeds from issue of share capital | - | 6 |
| Purchase of treasury shares | (503) | (503) |
| Purchase of own shares | (6) | (23) |
| Equity dividends paid | (606) | (574) |
| Dividends paid to non-controlling interests | (22) | (32) |
| Cash outflow from matured derivative financial instruments | (34) | (123) |
| Cash inflow from movement in cash collateral | - | 11 |
| Cash inflow from loans | 2,693 | 1,317 |
| Cash outflow from repayment of loans | (2,541) | (1,576) |
| **Net cash outflow from financing activities** | **(1,019)** | **(1,504)** |
| Net decrease in cash and cash equivalents | (672) | (915) |
| Cash and cash equivalents at 1 January | **2,802** | **3,678** |
| Effect of foreign exchange rate changes on cash and cash equivalents | 6 | 39 |
| **Cash and cash equivalents at 31 December** | **2,136** | **2,802** |
| Comprising: |  |  |
| Cash and cash equivalents1 | 2,141 | 2,813 |
| Overdrafts | (5) | (11) |
| **Cash and cash equivalents at 31 December** | **2,136** | **2,802** |

Above is BAE Systems cash flow statement for the year ending 31st December, and it is alongside the previous year’s cash flow statement as a comparison.

Operations is the cash generated over the year from the company’s core transactions.

Investing is the cash generated from investments outside the core operations.

Financing is the cash movement from financing opportunities, such as Loans, issuance of new stock and dividends.

Free cash flow signals a company's ability to pay debt, pay dividends, buy back stock and facilitate the growth of business

Free cash flow = (Net income + Depreciation) – (Changes in working capital + Capital expenditures)

= (1,256 + 751) – (628 + ?)

Operating cash flow = Net Operating Cash Flow / Cost of Sales = Number of £’s we receive in exchange for every £ of sales

= (482 / 17770) = 0.0271243669105234 = 0.027?