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Cash Flow Statement

Summary: Cash Flow Statement

We learnt about the statement which is often ignored but provides extremely important information about a company's performance. the Cash Flow statement.

- The Cash Flow statement tells us about the **movement of cash** in the company <u>during a given period</u>

- Cash flow statement (as reported formally) is divided into three parts
  1. Cash flow from Operations – which includes the cash flows from business operations; this section represents the adjustments made to the P&L (and the current side of the Balance Sheet) to get the cash implication of notional entries like revenues, expenses, depreciation, etc.

  2. Cash from Investing Activities – which provides the cash used/generated from making investments in various types of assets; this section represents the changes in the non-current assets side of the Balance Sheet during the year

  3. Cash flows from Financing Activities – which provides the cash used/generated derived from capital related activities; this section represents the changes in the Equity and non-current Liabilities side of the balance sheet e.g. money raised from shareholders or from lenders, dividends paid to shareholders or perhaps repayment of debt

- Revenue and Expenses are notional items; the actual cash flow from Revenues and Expenses in any given period can be expressed as:
  - Cash Inflow = Revenue – Increase in Receivables
  - Cash Outflow = Expense – Increase in Payables

- For practical, and managerial analytical purposes, we can create a simplified Cash Flow statement as EBITDA – [(Increase in Trade Receivables) – (Increase in Trade Payables)] – Tax – Capital Expenditure

- Cash flow statement is an important statement because it reflects how much cash is generated or used by the business. Since business / capital investments are made in cash, more the cash you generate, better off the stakeholders are. Surplus cash can be used to reinvest in the business, give shareholders dividends or repay loans. On the other hand, if your cash flows are negative, then you have to ask your shareholders for more money or you have to borrow money from elsewhere

Srinivasa Addepalli wrote this Note solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation.

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