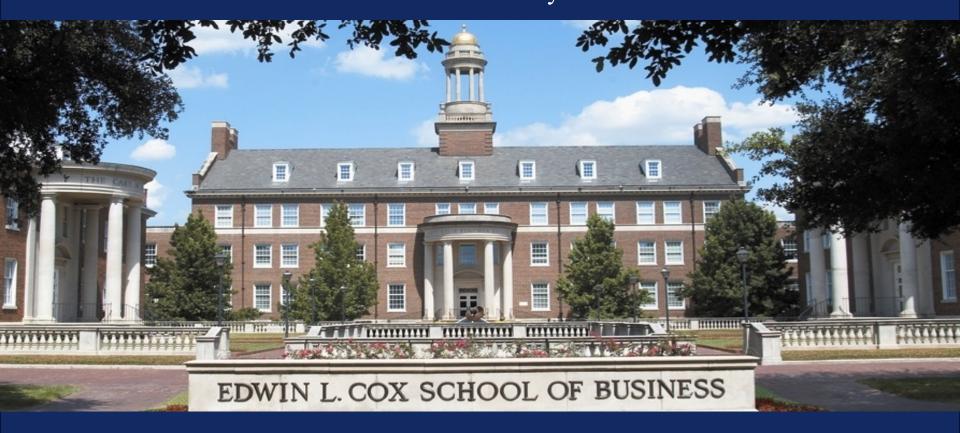


# Lecture 5: Financial Statement Analysis — Part 2 Cash Flow Analysis



Presentation to Cox Business Students

FINA 3320: Financial Management



#### **Purpose of This Lecture**

- Develop final tool for analyzing financial statements using
  - Cash Flow Analysis
    - Become familiar with constructing financial managers or analysts cash flow summary
    - Learn to interpret and analyze cash flow summary



## The Example: Cox Oil Company, Inc.

- We will employ the Cox Oil Company, Inc. example throughout
- Cox example will illustrate basic financial analysis techniques and procedures
  - True test of understanding is ability to apply concepts
  - Cox example provides application of each financial analysis
    - Makes is easier to 'reverse engineer'



## **Cash Flow Analysis**

- We will undertake the following three items using the overhead projector (i.e., 'old school')...
  - (1) Discuss the financial managers' cash flow summary format
  - (2) In-class step-by-step construction, review and discussion (analysis) of Cash Flow Example #1
  - (3) Calculation and review of Cox Oil Company, Inc. cash flow summary

#### **CASH FLOW SUMMARY** (U) S A (in \$000s) L/E (U) S 19 Sales revenue (1) 2 △ Accounts receivable (3) Cash collected from sales (4) Cost of goods sold (less depreciation) (5) △ Inventory 6 △ Accounts payable Cash paid to suppliers (7) Cash from trading activities $3 \pm 7 = 8$ SG&A expense (less noncash SG&A expenses) (10) △ Prepaid expenses (11) △ Accrued expenses (12) △ Other current accounts Cash paid for operating costs (13) Cash after operations 8 ± 13 = 14 Other income (expense) Income tax expense (16) (17) △ Deferred income taxes △ Income taxes payable (18) Taxes paid and other income (expense) (19) (14) ± (19) = (20) Net cash after operations Dividends or owners' withdrawals △ Dividends payable (22) Interest expense (23) △ Interest payable (24) Cash paid for dividends and interest (25) Cash after financing costs Current portion long-term debt (27) Cash after debt amortization 26 ± 27 = 28 △ Fixed assets △ Investments 30 △ Intangibles, other noncurrent accounts (31) Cash paid for plant and investments (32) FINANCING SURPLUS (REQUIREMENTS) 28 ± 32 = 33 (34) △ Short-term debt (notes payable) 35) △ Long-term debt △ Preferred stock 36) △ Common stock 37) Total external financing 38) Financing surplus (requirements) + Total external financing PROOF: Change in cash and marketable securities



#### Thank You!



Charles B. (Chip) Ruscher, PhD

Department of Finance and Business Economics