

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
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CASH FLOW SUMMARY

(in \$000s)

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Sales revenue	(1)	
△ Accounts receivable	(2)	
Cash collected from sales	(3)	
Cost of goods sold (less depreciation)	(4)	
△ Inventory	(5)	
△ Accounts payable	(6)	
Cash paid to suppliers	(7)	
Cash from trading activities	(3) ± (7) = (8)	
SG&A expense (less noncash SG&A expenses)	(9)	
△ Prepaid expenses	(10)	
△ Accrued expenses	(11)	
△ Other current accounts	(12)	
Cash paid for operating costs	(13)	
Cash after operations	(8) ± (13) = (14)	
Other income (expense)	(15)	
Income tax expense	(16)	
△ Deferred income taxes	(17)	
△ Income taxes payable	(18)	
Taxes paid and other income (expense)	(19)	
Net cash after operations	(14) ± (19) = (20)	
Dividends or owners' withdrawals	(21)	
△ Dividends payable	(22)	
Interest expense	(23)	
△ Interest payable	(24)	
Cash paid for dividends and interest	(25)	
Cash after financing costs	(20) ± (25) = (26)	
Current portion long-term debt	(27)	
Cash after debt amortization	(26) ± (27) = (28)	
△ Fixed assets	(29)	
△ Investments	(30)	
△ Intangibles, other noncurrent accounts	(31)	
Cash paid for plant and investments	(32)	
FINANCING SURPLUS (REQUIREMENTS)	(28) ± (32) = (33)	
△ Short-term debt (notes payable)	(34)	
△ Long-term debt	(35)	
△ Preferred stock	(36)	
△ Common stock	(37)	
Total external financing	(38)	
Financing surplus (requirements) + Total external financing	(33) ± (38) = (39)	
PROOF: Change in cash and marketable securities	(40)	

Thank You!



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