

Setting the Stage

Income
Statement

Balance Sheet

Statement of
Cash Flows

The statement of cash flows highlights the major activities that impact cash flows and hence, affect the overall cash balance.

Purpose of the Statement of Cash Flows

Are cash flows sufficient to support ongoing operations?

Can we pay debts?

Will the company have to borrow money to make needed investments?

Why is there a difference between net income and net cash flow?

Can we pay dividends?



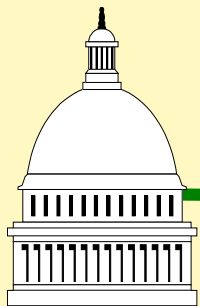
Statement of Cash Flows: Key Concepts

The term **cash** on the statement of cash flows refers broadly to both currency and cash equivalents.



**Currency and Bank
Accounts**

Cash



**Treasury
Bills**



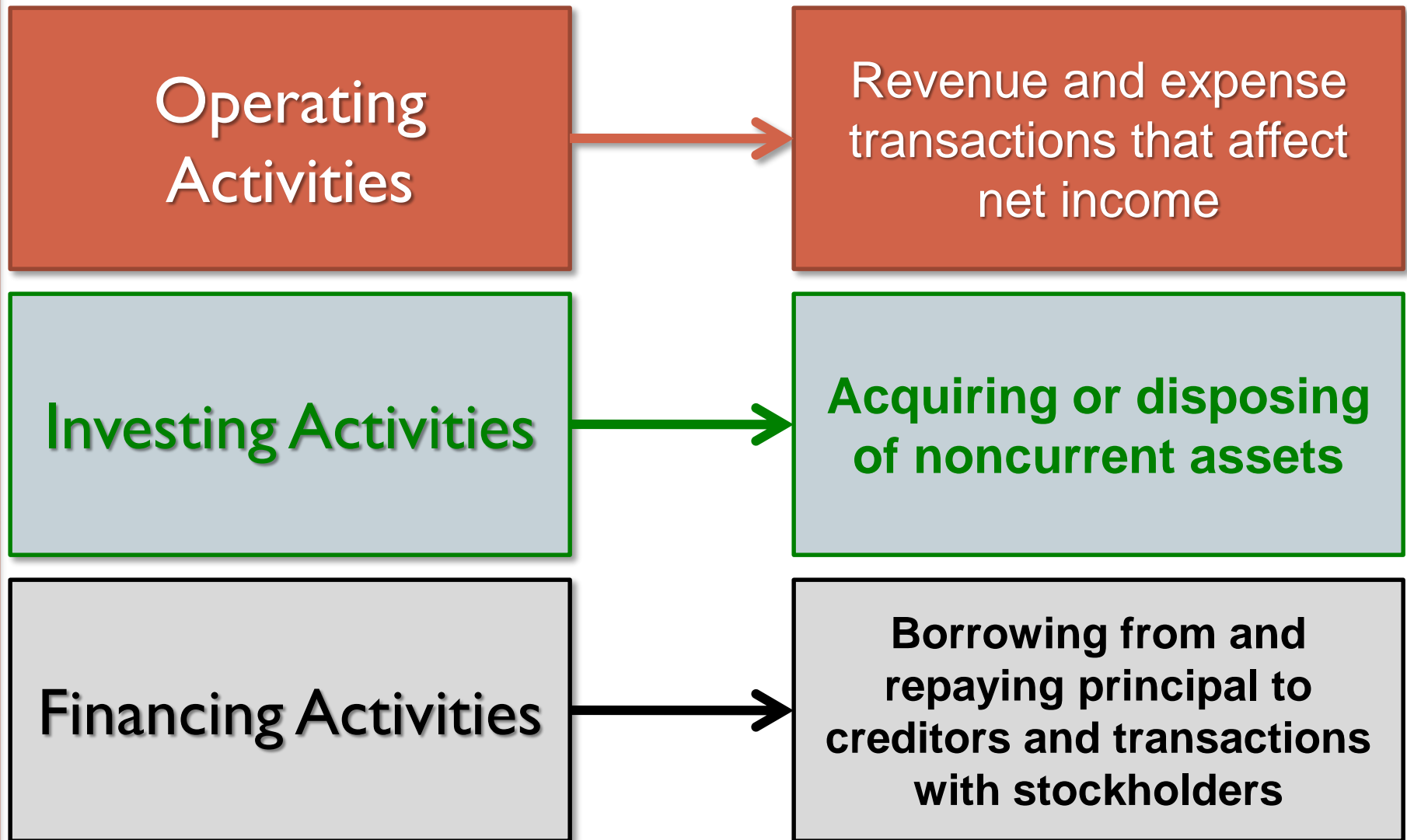
**Commercial
Paper**



**Money Market
Funds**

**Cash
Equivalents**

Organizing a Statement of Cash Flows



Organizing a Statement of Cash Flows

	Cash Inflow	Cash Outflow
Operating activities		
Collecting cash from customers	√	
Paying suppliers for inventory purchases		√
Paying bills to insurers, utility providers, etc		√
Paying wages and salaries to employees		√
Paying taxes to governmental bodies		√
Paying interest to lenders		√
Investing activities		
Buying property, plant, and equipment		√
Selling property, plant, and equipment	√	
Buying stocks and bonds as a long-term investment		√
Selling stocks and bonds held for long-term investment	√	
Lending money to another entity		√
Collecting the principal on a loan to another entity	√	
Financing activities		
Borrowing money from a creditor	√	
Repaying the principal amount of a debt		√
Collecting cash from the sale of common stock	√	
Paying cash to repurchase your own common stock		√
Paying a dividend to stockholders		√