

Cash Flow 101



Mini Investment Class by the OKI Tri-State Chapter

*Courtesy Cincinnati Model Investment Club
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What We Will Cover

- ▣ What is a Cash Flow Statement
 - Difference between Income Statement and Cash Flow Statement
- ▣ Why we look at Cash Flow Statement
- ▣ What the Cash Flow Statement tells us.

Income Statement

- ▶ **Income Statement**- profitability of a company over a set period of time
- ▶ The set period of time is usually one year or one quarter.
- ▶ To find out if a company is profitable we take the total of the sales or revenues and subtract the expenses and taxes.

Income Statement

▣ Simple Income Statement

SALES

Minus **EXPENSES**

Minus **TAXES**

Equals **NET PROFIT**

Accrual Accounting

- ❑ Accrual Accounting can sometimes make the Income Statement for a company look more profitable than the company really is.

Cash Flow Statement

- ❑ **Cash Flow Statement**- tells us how much cash actually came into and went out of the business during a set time period, usually a year or a quarter. This is called the liquidity of the company.

Cash Flow Statement

- ❑ We look at the Cash Flow Statement because a company can appear profitable on its Income Statement and Balance Sheet but be cash poor which could lead to serious trouble.

Cash Flow Statement

- Divided into three parts
 - Operating Activities
 - Investing Activities
 - Financing Activities

Operating Activities

- ▶ **This is the most important part of the Cash Flow Statement.**
- ▶ **It is the money generated from the main focus of the business.**
- ▶ **If business is doing well this is positive and increasing.**

Cash Flow Statement

- ▶ If you do nothing else with the Cash Flow Statement, check the line labeled “Net Cash provided by Operating Activities” and make sure it is going in the same direction as the “Net Income” (Earnings) line on the SSG.

Investing Activities

- ▶ This is money invested in growing the company. It is money spent for property, plant, equipment, or received for the sale of property, plants, or equipment.
- ▶ It is also money put into any long-term investments.
- ▶ Generally this section is in brackets. This is good. This is investing for the future growth of the company.

Financing Activities

- ▶ This area shows where the company got additional money beyond retained earnings (earnings from sales).
- ▶ A company can get additional money from the sale of stock, or by borrowing.
- ▶ Any dividends paid, repurchase of stock and repayment of loans is included in this section.

Free Cash Flow

- ▶ Many definitions for this term.
- ▶ Cash from operating activities does not include
 - the money a company has spent on new plants, stores, or equipment.
 - does not include dividends paid out.
- ▶ Financially strong companies can pay these items and still have cash left from operating activities.

Free Cash Flow

- ❑ All definitions begin with the operating cash flow number.
- ❑ Most people then **subtract the amount spent on Capital Expenditures** in Investing Activities.
- ❑ Many also **subtract the Dividends** paid in Financing Activities

The End is Here



Conclusion

- ▣ Cash Flow Statement gives us a good view of the liquidity of a company
 - It tells us how much cash actually went into and out of the company during a set period of time.
 - A company can show a net profit and be cash poor. This could be a very early warning sign that serious problems are developing.
- ▣ Cash from Operating Activities is the most important part.

CASH IS KING

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