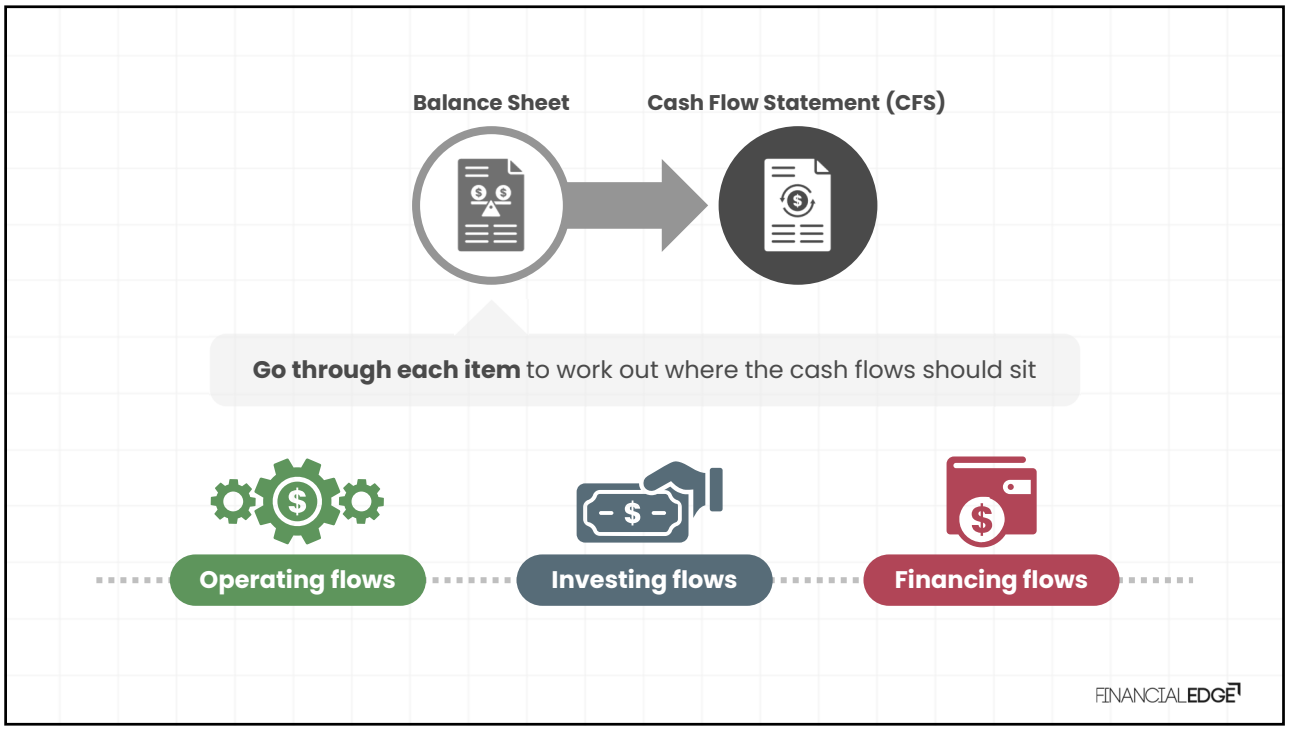
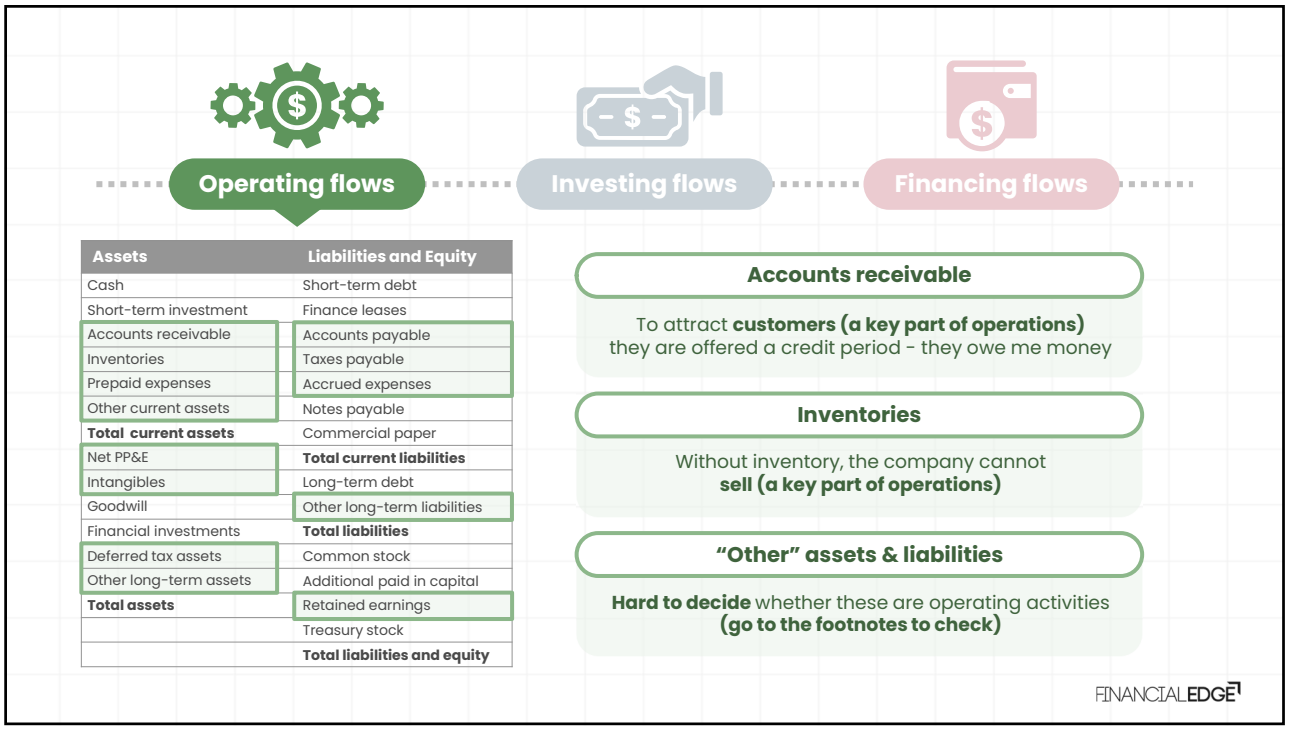



# 1. Cash Flow Categories

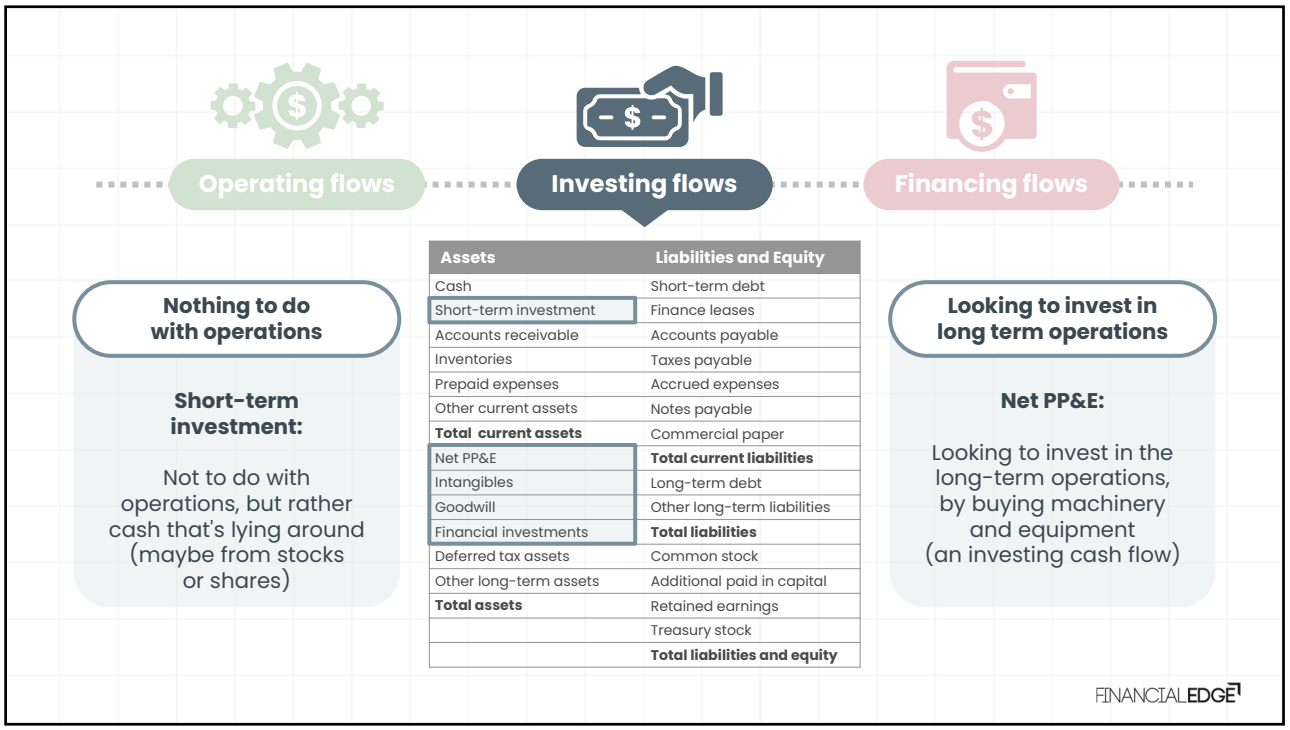


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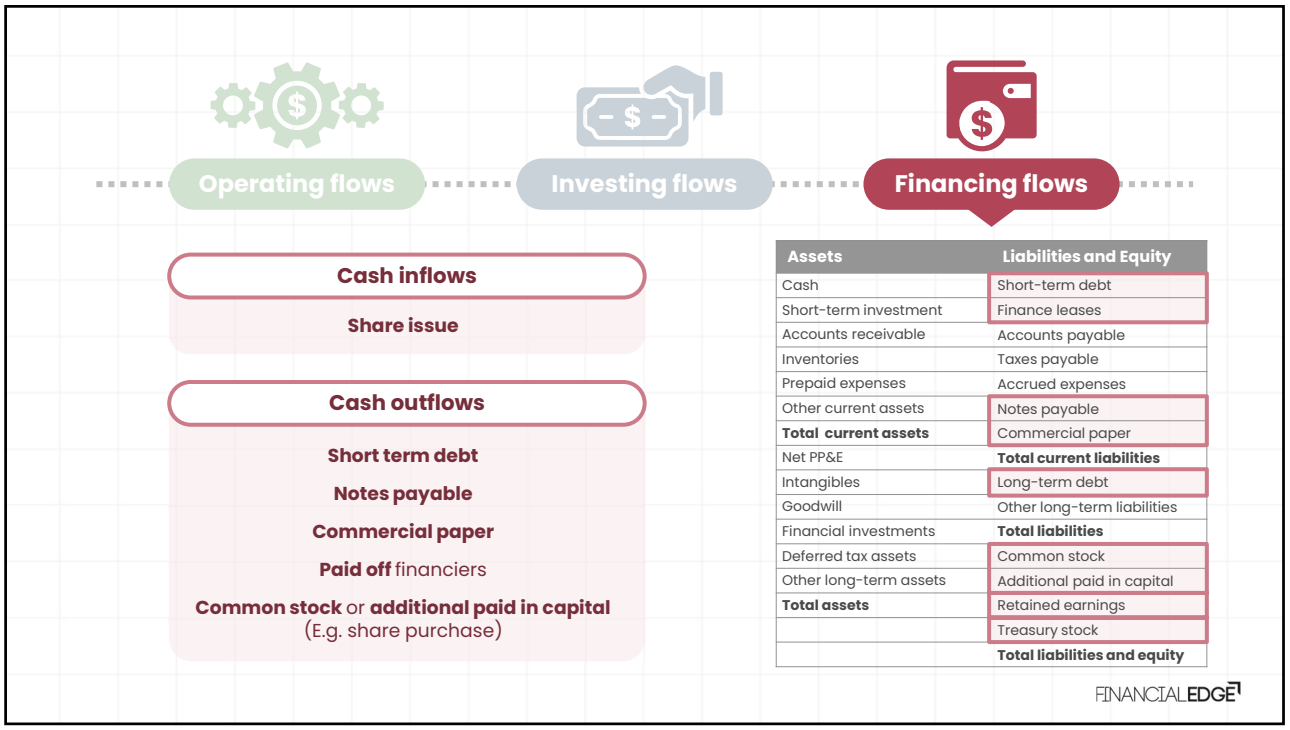



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| Assets | Liabilities and Equity |
|---|---|
| Cash | Short-term debt |
| Short-term investment | Finance leases |
| Accounts receivable | Accounts payable |
| Inventories | Taxes payable |
| Prepaid expenses | Accrued expenses |
| Other current assets | Notes payable |
| **Total current assets** | Commercial paper |
| Net PP&E | **Total current liabilities** |
| Intangibles | Long-term debt |
| Goodwill | Other long-term liabilities |
| Financial investments | **Total liabilities** |
| Deferred tax assets | Common stock |
| Other long-term assets | Additional paid in capital |
| **Total assets** | Retained earnings |
| | Treasury stock |
| | **Total liabilities and equity** |




| Assets | Liabilities and Equity |
|---|---|
| Cash | Short-term debt |
| Short-term investment | Finance leases |
| Accounts receivable | Accounts payable |
| Inventories | Taxes payable |
| Prepaid expenses | Accrued expenses |
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| Deferred tax assets | Common stock |
| Other long-term assets | Additional paid in capital |
| **Total assets** | Retained earnings |
| | Treasury stock |
| | **Total liabilities and equity** |

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### Retained earnings

**Operating:** May be net income or reinvested profit

**Financing:** May be dividends paid

### Net PP&E

**Investing:** May be due to capital expenditure

**Operating:** May be due to depreciation

### Intangibles

**Investing:** Purchases of intangibles

**Operating:** Amortization of intangibles

| Assets | Liabilities and Equity |
|---|---|
| Cash | Short-term debt |
| Short-term investment | Finance leases |
| Accounts receivable | Accounts payable |
| Inventories | Taxes payable |
| Prepaid expenses | Accrued expenses |
| Other current assets | Notes payable |
| **Total current assets** | Commercial paper |
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| Intangibles | Long-term debt |
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| Financial investments | **Total liabilities** |
| Deferred tax assets | Common stock |
| Other long-term assets | Additional paid in capital |
| **Total assets** | Retained earnings |
| | Treasury stock |
| | **Total liabilities and equity** |

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### Why is cash left out?

**Cash flows** involving **short term investments**

**Cash flows** involving **accounts receivable**

**Cash flows** involving **inventories**

**Etc.**

**Cash at the end of the period**

| Assets | Liabilities and Equity |
|---|---|
| Cash | Short-term debt |
| Short-term investment | Finance leases |
| Accounts receivable | Accounts payable |
| Inventories | Taxes payable |
| Prepaid expenses | Accrued expenses |
| Other current assets | Notes payable |
| **Total current assets** | Commercial paper |
| Net PP&E | **Total current liabilities** |
| Intangibles | Long-term debt |
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| Other long-term assets | Additional paid in capital |
| **Total assets** | Retained earnings |
| | Treasury stock |
| | **Total liabilities and equity** |

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# 3. Reconciling Two Balance Sheets to Net Cash

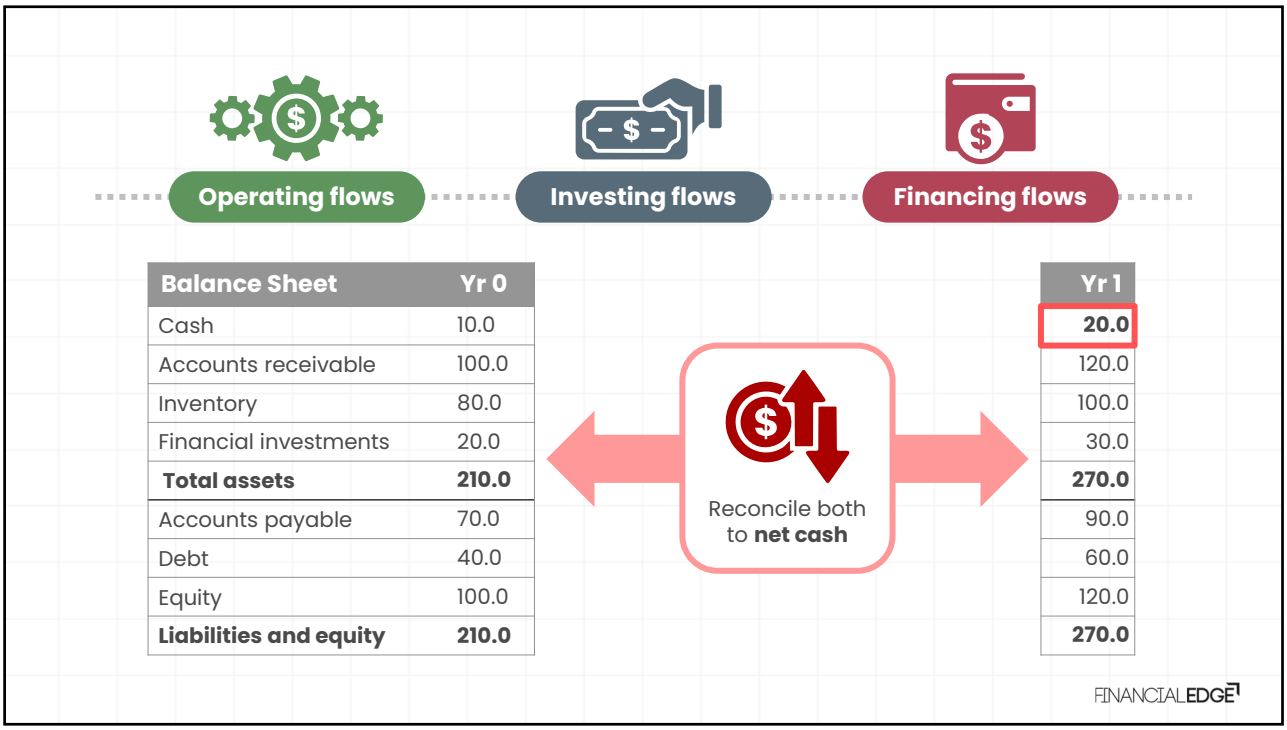
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| Balance Sheet | Yr 0 | Yr 1 |
|---|---|---|
| Cash | 10.0 | **20.0** |
| Accounts receivable | 100.0 | 120.0 |
| Inventory | 80.0 | 100.0 |
| Financial investments | 20.0 | 30.0 |
| **Total assets** | **210.0** | **270.0** |
| Accounts payable | 70.0 | 90.0 |
| Debt | 40.0 | 60.0 |
| Equity | 100.0 | 120.0 |
| **Liabilities and equity** | **210.0** | **270.0** |

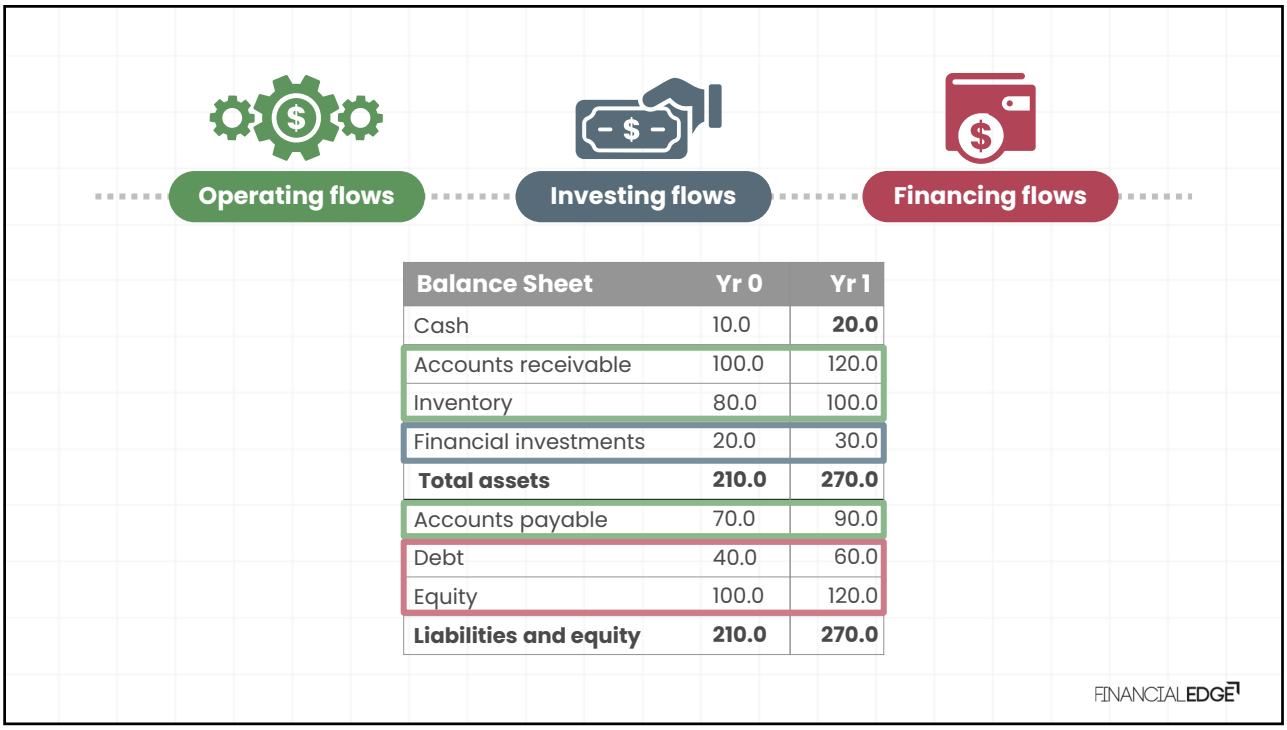
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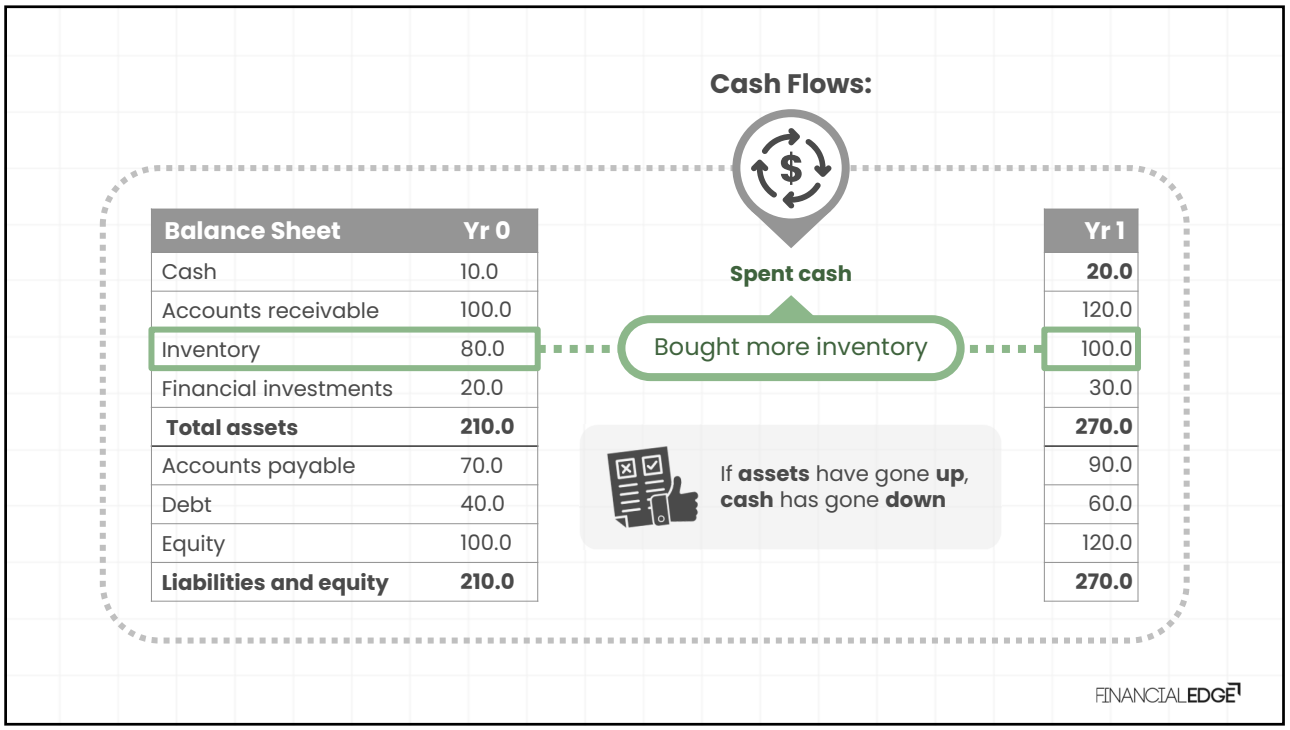

| Balance Sheet | Yr 0 |
|---|---|
| Cash | 10.0 |
| Accounts receivable | 100.0 |
| Inventory | 80.0 |
| Financial investments | 20.0 |
| **Total assets** | **210.0** |
| Accounts payable | 70.0 |
| Debt | 40.0 |
| Equity | 100.0 |
| **Liabilities and equity** | **210.0** |

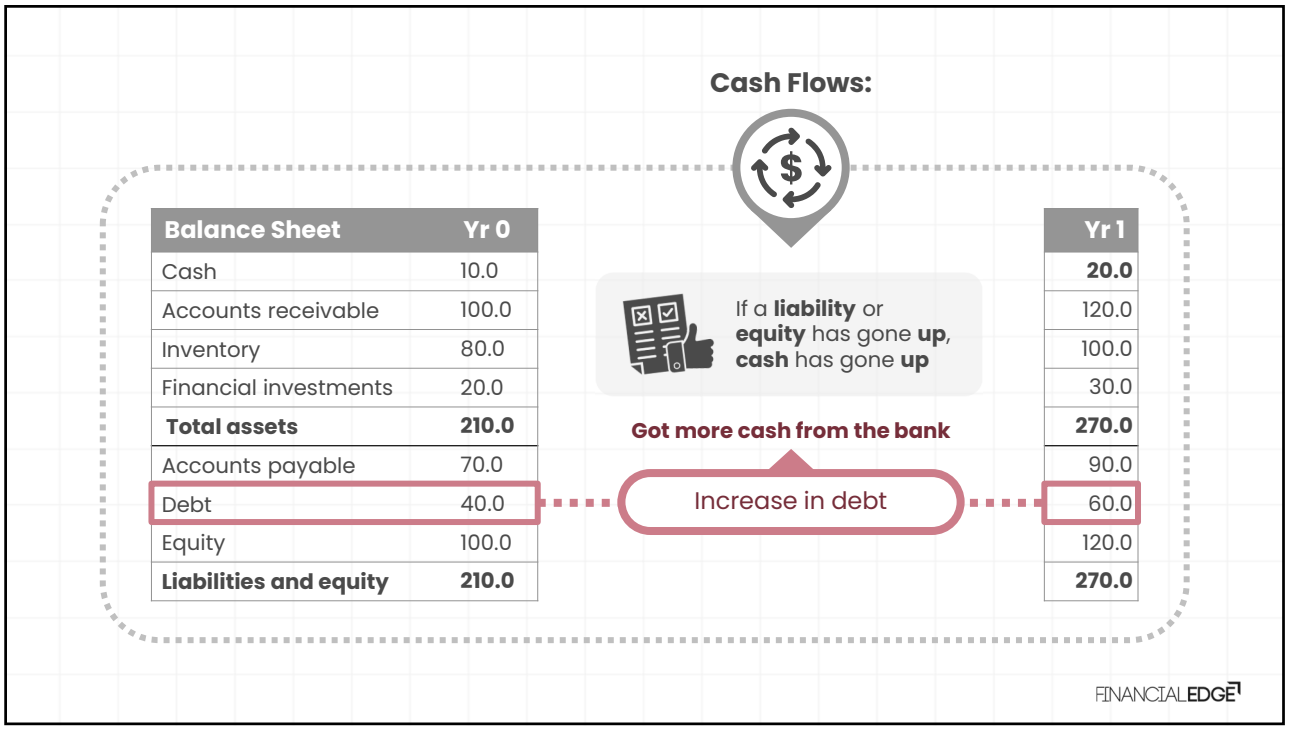
| Yr 1 |
|---|
| **20.0** |
| 120.0 |
| 100.0 |
| 30.0 |
| **270.0** |
| 90.0 |
| 60.0 |
| 120.0 |
| **270.0** |




| Balance Sheet | Yr 0 | Yr 1 |
|---|---|---|
| Cash | 10.0 | **20.0** |
| Accounts receivable | 100.0 | 120.0 |
| Inventory | 80.0 | 100.0 |
| Financial investments | 20.0 | 30.0 |
| **Total assets** | **210.0** | **270.0** |
| Accounts payable | 70.0 | 90.0 |
| Debt | 40.0 | 60.0 |
| Equity | 100.0 | 120.0 |
| **Liabilities and equity** | **210.0** | **270.0** |

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## Cash Flows:

| Balance Sheet | Yr 0 | | Yr 1 |
|---|---|---|---|
| Cash | 10.0 | | **20.0** |
| Accounts receivable | 100.0 | Operating **-20.0** | 120.0 |
| Inventory | 80.0 | Operating **-20.0** | 100.0 |
| Financial investments | 20.0 | Investing **-10.0** | 30.0 |
| **Total assets** | **210.0** | | **270.0** |
| Accounts payable | 70.0 | Operating **20.0** | 90.0 |
| Debt | 40.0 | Financing **20.0** | 60.0 |
| Equity | 100.0 | Financing **20.0** | 120.0 |
| **Liabilities and equity** | **210.0** | | **270.0** |

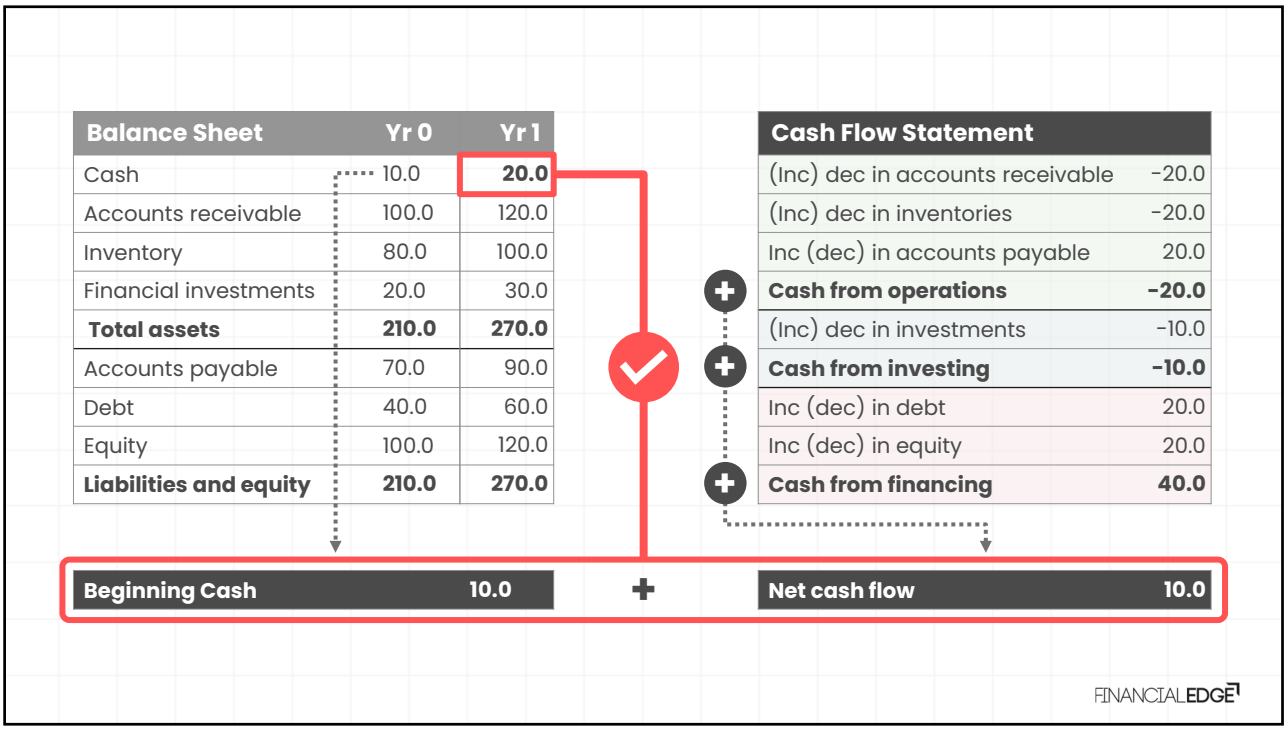
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| Balance Sheet | Yr 0 | Yr 1 | |
|---|---|---|---|
| Cash | 10.0 | **20.0** | |
| Accounts receivable | 100.0 | 120.0 | **Operating** -20.0 |
| Inventory | 80.0 | 100.0 | **Operating** -20.0 |
| Financial investments | 20.0 | 30.0 | **Investing** -10.0 |
| **Total assets** | **210.0** | **270.0** | |
| Accounts payable | 70.0 | 90.0 | **Operating** 20.0 |
| Debt | 40.0 | 60.0 | **Financing** 20.0 |
| Equity | 100.0 | 120.0 | **Financing** 20.0 |
| **Liabilities and equity** | **210.0** | **270.0** | |

| Cash Flow Statement | |
|---|---|
| (Inc) dec in accounts receivable | -20.0 |
| (Inc) dec in inventories | -20.0 |
| Inc (dec) in accounts payable | 20.0 |
| **Cash from operations** | **-20.0** |
| (Inc) dec in investments | -10.0 |
| **Cash from investing** | **-10.0** |
| Inc (dec) in debt | 20.0 |
| Inc (dec) in equity | 20.0 |
| **Cash from financing** | **40.0** |

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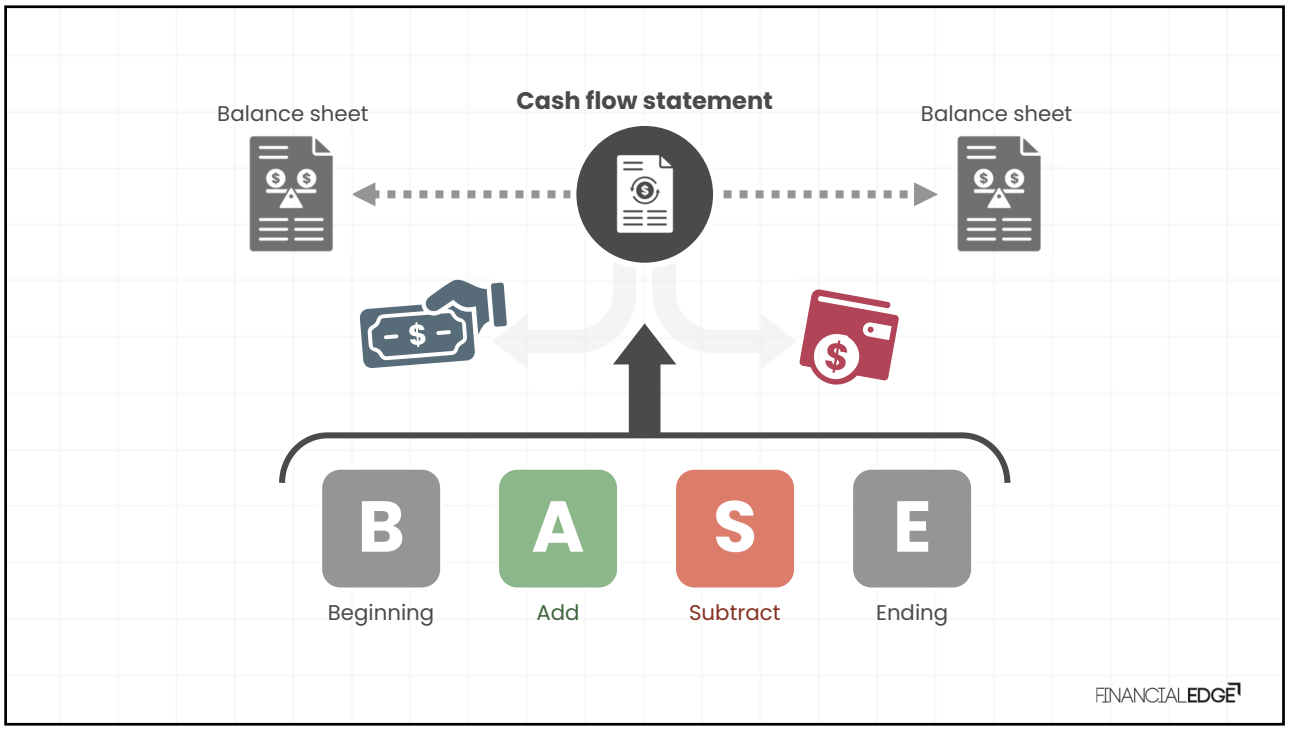
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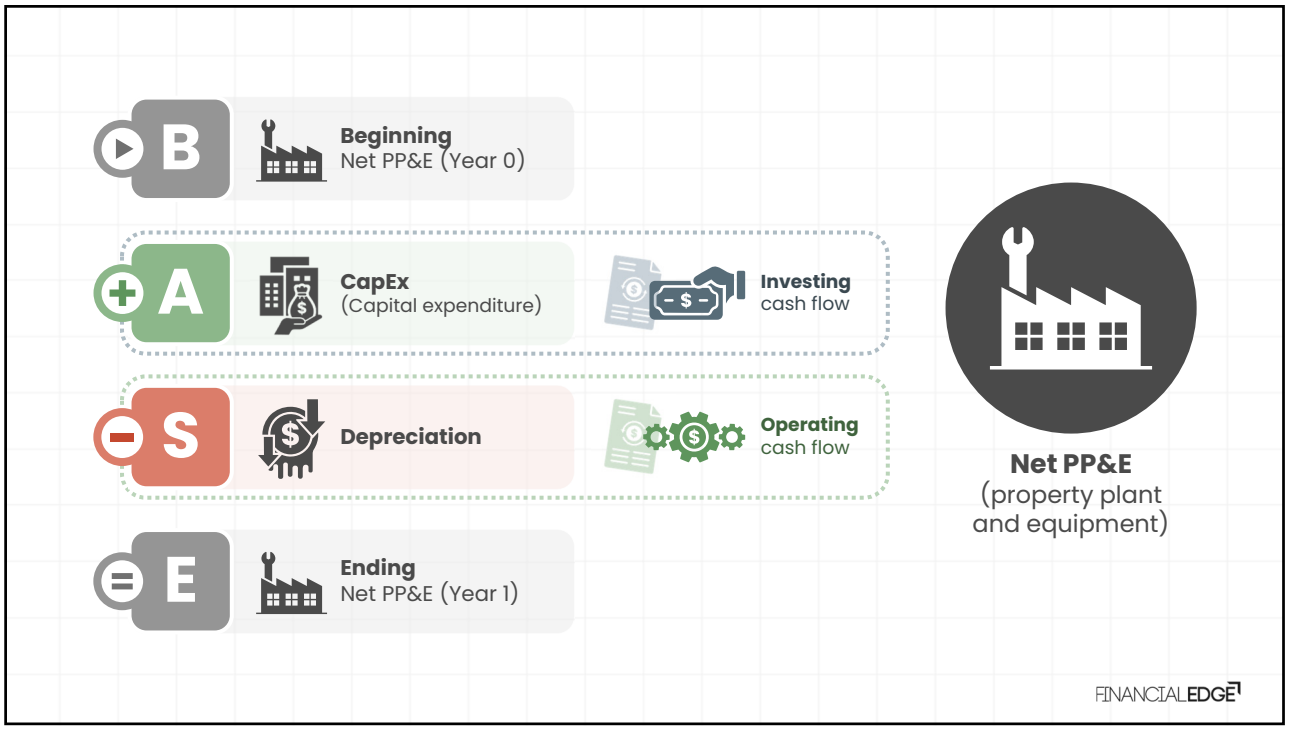



# 4. BASE - Balance Sheet Items Impacted by Two Cash Flow Statement Items

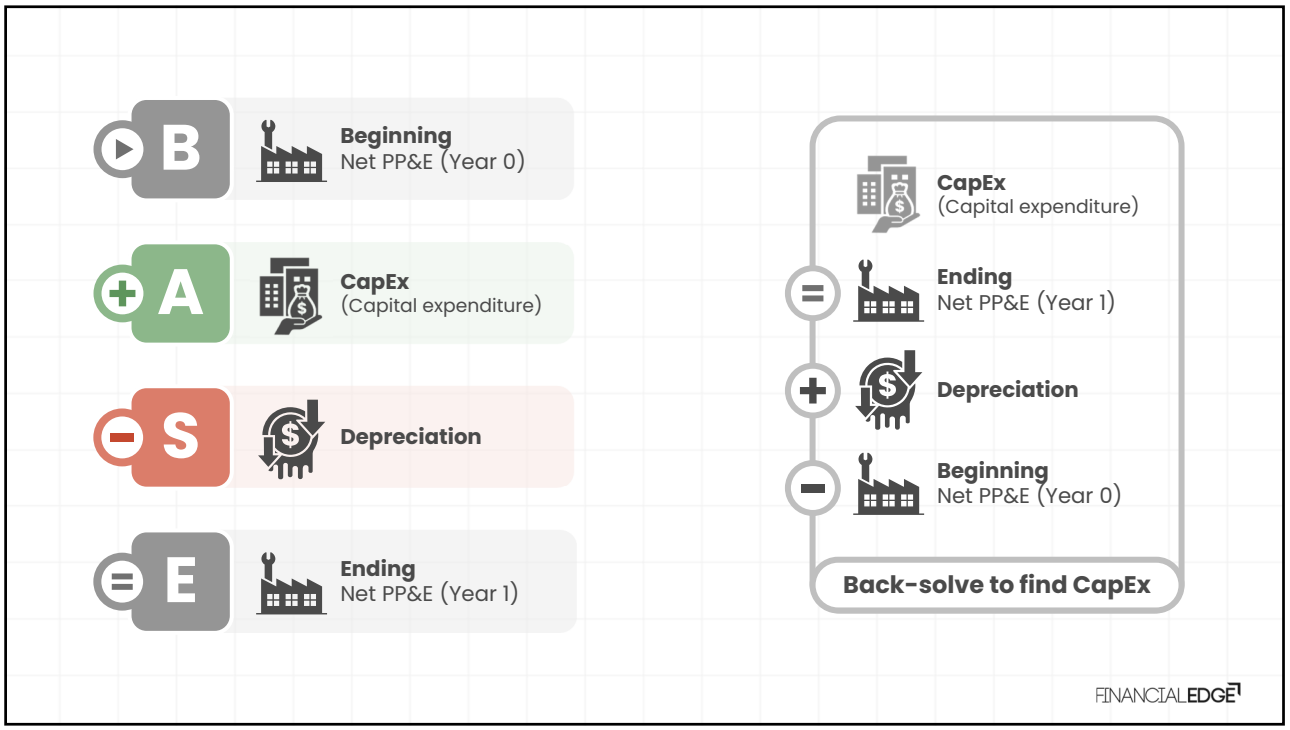
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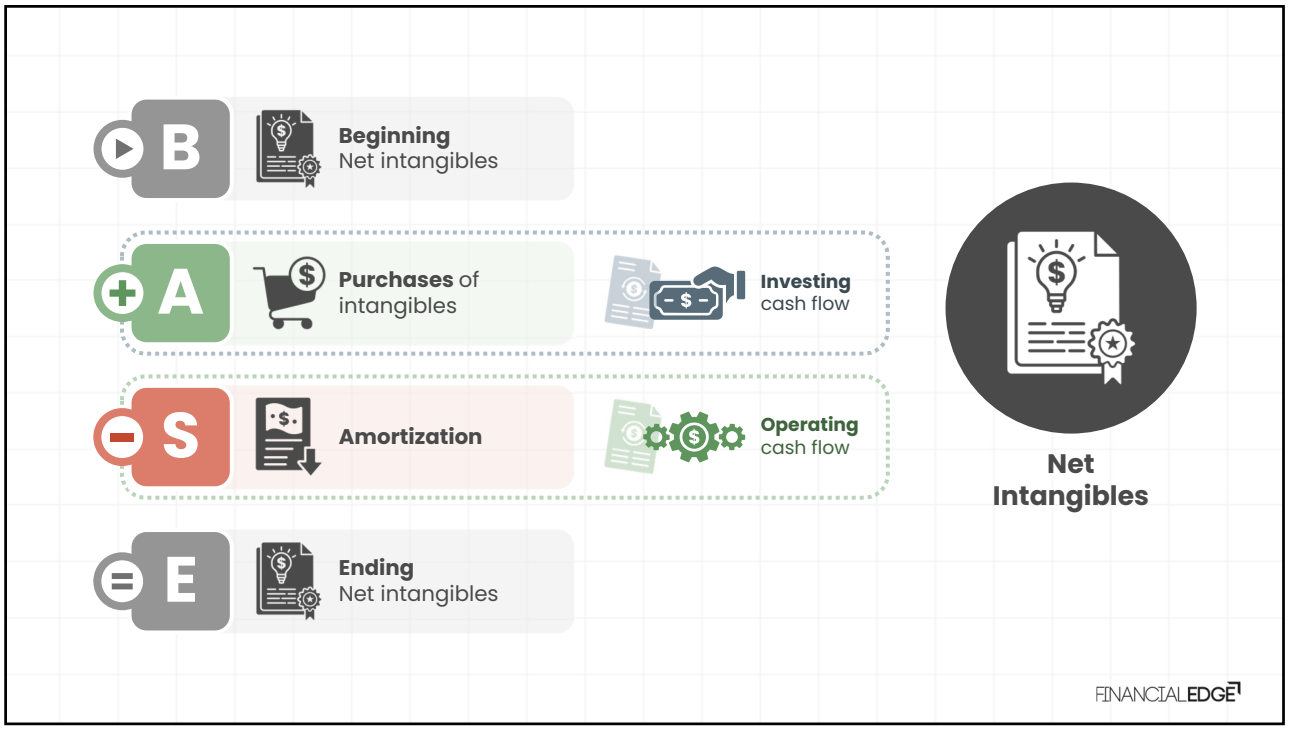
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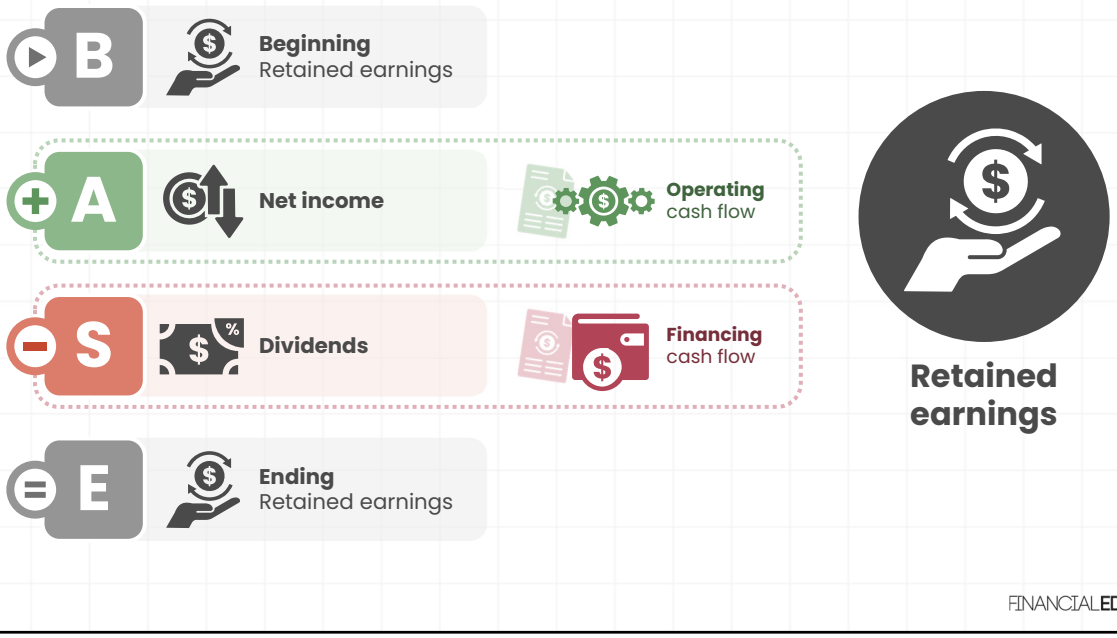




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# 5. Operating Working Capital in the Cash Flow Statement

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## Operating working capital (OWC)



**Reduce the number of lines** in a cash flow statement

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| Cash Flow Statement | |
|---|---|
| (Inc) dec in accounts receivable | (10.0) |
| (Inc) dec in inventories | (25.0) |
| Inc (dec) in accounts payable | 15.0 |
| **Cash from operations** | **(20.0)** |
| (Inc) dec in investments | (10.0) |
| **Cash from investing** | **(10.0)** |
| Inc (dec) in debt | 20.0 |
| Inc (dec) in equity | 20.0 |
| **Cash from financing** | **40.0** |
| **Net cash flow** | **10.0** |



**Operating working capital items**

**Sum up and report one line** as the increase or decrease in operating working capital

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| Cash Flow Statement | |
|---|---|
| (Inc) dec in accounts receivable | (10.0) |
| (Inc) dec in inventories | (25.0) |
| Inc (dec) in accounts payable | 15.0 |
| **Cash from operations** | **(20.0)** |
| (Inc) dec in investments | (10.0) |
| **Cash from investing** | **(10.0)** |
| Inc (dec) in debt | 20.0 |
| Inc (dec) in equity | 20.0 |
| **Cash from financing** | **40.0** |
| **Net cash flow** | **10.0** |

| | |
|---|---|
| Accounts receivable | **-10** |
| Inventories | **-25** |
| Accounts payable | **+15** |
| **Operating working capital =** | **-20** |

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| | |
|---|---|
| Accounts receivable | **-10** |
| Inventories | **-25** |
| Accounts payable | **+15** |
| **Operating working capital =** | **-20** |

| Cash Flow Statement | |
|---|---|
| **(Inc) dec in OWC** | **(20.0)** |
| **Cash from operations** | **(20.0)** |
| (Inc) dec in investments | (10.0) |
| **Cash from investing** | **(10.0)** |
| Inc (dec) in debt | 20.0 |
| Inc (dec) in equity | 20.0 |
| **Cash from financing** | **40.0** |
| **Net cash flow** | **10.0** |

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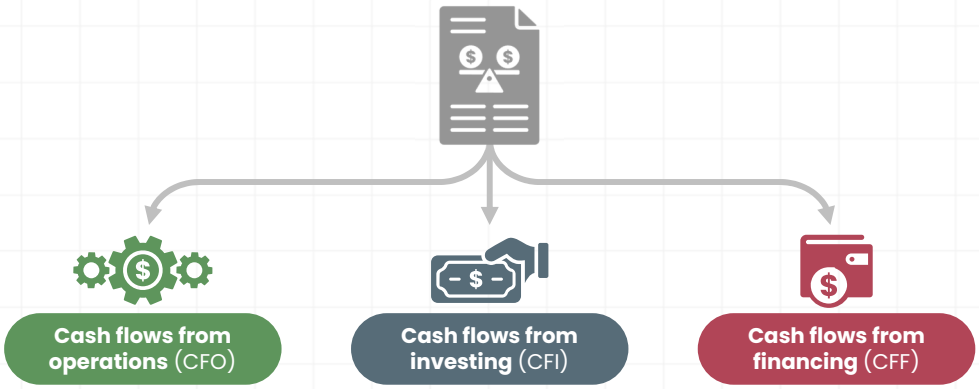
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# 6. Steps to Building a Cash Flow Statement

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1

**Categorize balance sheet accounts**

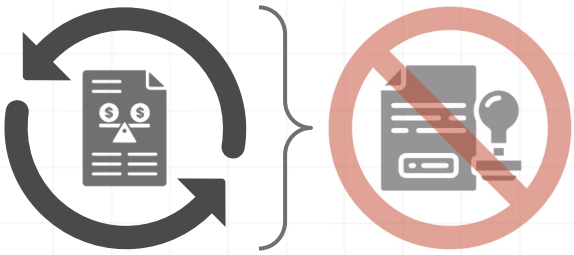



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## 2

### Calculate changes not captured by reconciliations



Change in **inventory** | Change in **accounts payable** | Change in **accounts receivable**

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## 3

### Harder reconciliations & Operating Working Capital calculations

**B A S E**
**Analysis**

- Net PP&E
- Net intangibles
- Retained earnings

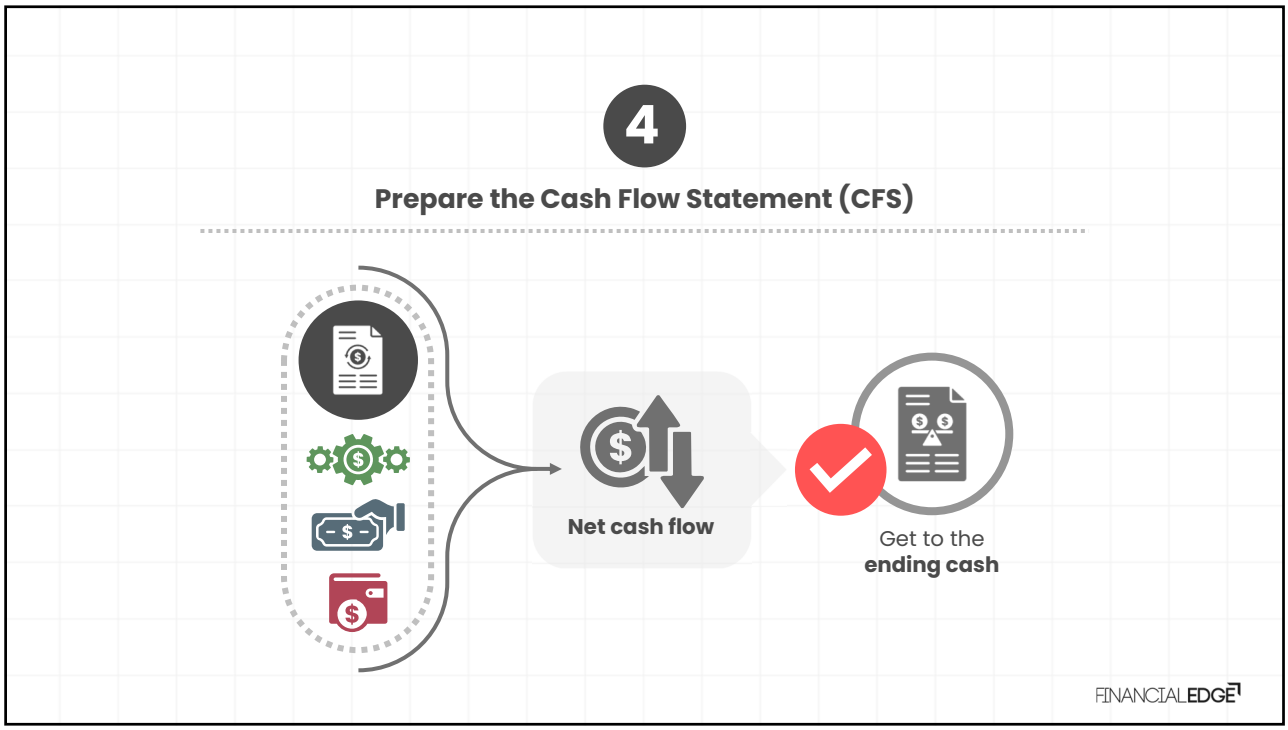
\+

**Summarize OWC**
(Operating Working Capital)



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