The Cash Flow Statement

The Cash Flow Statement tells you the amount of cash and cash equivalents flowing into and out of a company over a period. It reconciles the cash balance of the company in the beginning of the period to its cash balance at the end. The Cash Flow Statement consists of three primary segments: 1. Cash Flow from Operations, which corresponds to the amount of cash received from or used in the company's ongoing, regular business activities. 2. Cash Flow from Investing, which shows the company's cash flow from anything related to the company's investments, acquisitions, and PP&E. 3. Cash Flow from Financing, which shows the company's cash flow from anything related to debt, dividends, and issuing or repurchasing shares. It is important to note that companies' financial statements vary to a great extent.

Why Do We Need the Cash Flow Statement?

The Cash Flow Statement exists for two primary reasons:

1) To **adjust for and reflect the non-cash revenue (e.g., Accounts Receivable), expenses (e.g., Prepaid Expenses), or taxes (Depreciation)** on the Income Statement.

2) To **record any additional cash inflows and outflows** that do not appear on the Income Statement (e.g., Dividends reduce the company's cash balance but do not show up on the Income Statement).

The Three Segments

CASH FLOW FROM OPERATIONS (CFO): The first segment of the Cash Flow Statement begins with Net Income, and then adjusts for non-cash items, including Depreciation and Amortization, etc., and then factors in how operating Balance Sheet items change during that period, such as Change in Accounts Receivable and Change in Inventory, etc. Note that for assets, change is calculated as previous year's value - current year's value, whereas for liabilities, change is calculated as current year's value - previous year's value. The last line item of this segment, Cash Flow from Operations, is simply the sum of the line items above. Key line items include:

Cash Flow from Operating Activities

- Net Income
- Depreciation
- Amortization of Intangible Assets
- Stock-Based Compensation
- Goodwill Impairment
- PP&E Write-Down
- Deferred Income Taxes
- (Gains) / Losses on Investment Sales

Change in Operating Assets & Liabilities

ASSETS = PREVIOUS YEAR - CURRENT YEAR
- Change in Accounts Receivable
- Change in Inventory
- Change in Prepaid Expenses

LIABILITIES = CURRENT YEAR - PREVIOUS YEAR
- Change in Accounts Payable
- Change in Accrued Expenses
- Change in Deferred Revenue

CASH FLOW FROM INVESTING ACTIVITIES (CFI): The second segment of the Cash Flow Statement includes line items related to the company's investments, its acquisitions, as well as its PP&E. Purchases are negative because they represent an outflow of cash whereas sales are positive because they represent an inflow of cash. The last line of this segment, Cash Flow from Investing, is simply the sum of the line items above. Key line items in this segment include:

- Capital Expenditures (CapEx)
- Purchases of Short-Term Investments
- Purchases of Long-Term Investments
- Proceeds from Short-Term Investment Sales

CASH FLOW FROM FINANCING ACTIVITIES (CFF): The third segment of the Cash Flow Statement includes line items related to the company's debt, its dividends, and the issuing or repurchasing of its shares. The last line of this segment, Cash Flow from Financing, is simply the sum of the line items above. Key line items in this segment include:

- Debt Raised
- Debt Principal Repayment
- Equity Issuance
- Dividends Issued
- Share Repurchases