Cash Flow Statement

Cash Flow Statement

The cash flow statement is an accounting report that provides aggregate data regarding all cash inflows and cash outflows a company receives or pays out during the reporting period to support ongoing operations, purchase or sale of long-term assets, and receipts from or payments for external financing. It is created for those companies that utilize the accrual based accounting method.

The cash flow statement starts with the beginning cash balance from the previous reporting period and ends with the cash flow balance at the end of the current reporting period. It also includes the cash flow activities that occurred during the current reporting period. These cash flow activities are categorized into three primary business activities: cash flow from operating activities, cash flow from investment activities, and cash flow from financing activities.

- **Cash Flow from Operating Activities:** This section captures inflows and outflows of cash that stem directly from a company's main business activities. It starts with net profit from income statement and then adjustments are made to account for depreciation taken from the income statement from that same time period, as well account for changes in short-term assets and liabilities from the balance sheet (when compared to the balance sheet from the prior reporting period).
    - Example 1: Depreciation appears on the income statement as an expense, but it does reflect an actual use of cash (payment) during that reporting period. The XYZ Clothing Company's income statement for year 2 showed $10,000 in depreciation expense. The cash flow from operating activities for year 2 would show a positive adjustment of $10,000 to net profits (see cash flow statement example below).
    - Example 2: When a company has an increase in the amount of inventory on their balance sheet (when compared to the prior reporting period), it means that the company had to use cash to fund this increase. According to their balance sheet, the XYZ Clothing Company had an inventory balance of $50,000 in year 1 and a $90,000 inventory balance in year 2. The cash flow from operating activities section of the company's year 2 cash flow statement would show a negative cash flow adjustment (cash outflow) of $40,000 (see cash flow statement example below).
    - Example 3: When a company has an increase in the amount of accounts payable on their balance sheet (when compared to the prior reporting period), it means the company had to use cash to pay down the balances due to their vendors. According to their balance sheet, the XYZ Clothing Company had an accounts payable balance of $50,000 in year 1, and a $25,000 inventory balance in year 2. The cash flow from operating activities section of the company's year 2 cash flow statement would show a negative cash flow adjustment (cash outflow) of $25,000 (see cash flow statement example below).

- **Cash Flow from Investment Activities:** This section captures the inflows and outflows of cash associated with long-term assets from the balance sheet. Examples include the purchase of investments, purchase of property and equipment, and proceeds from the sale of these types of items.

  - Example 1: When a company has an increase in the amount of equipment on their balance sheet (when compared to the prior reporting period), it means that the company had to use cash to fund this increase. According to their balance sheet, the XYZ Clothing Company hadan equipment balance of $190,000 in year 1, and a $200,000 balance in year 2. The cash flow from investment activities section of the company's year 2 cash flow statement would show a negative cash flow adjustment (cash outflow) of $10,000 (see cash flow statement example below).

  - Example 2: When a company has a decrease in the amount of investments on their balance sheet (when compared to the prior reporting period), it means that the company had an inflow of cash (most likely through the sale of the investments). According to their balance sheet, the XYZ Clothing Company had an investment balance of $21,000 in year 1, and a $20,000 balance in year 2. The cash flow from investment activities section of the company's year 2 cash flow statement would show a positive cash flow adjustment (cash inflow) of $1,000 (see cash flow statement example below).

- **Cash Flow from Financing Activities:** This section captures the inflows and outflows of cash associated with financing the business. Examples include proceeds from taking on a loan, payments made to an existing loan, proceeds from an equity investor, and ownership distributions.

  - Example 1: When a company has an increase in their line of credit balance on their balance sheet (when compared to the prior reporting period), it means that the company had received cash from this line of credit. According to their balance sheet, the XYZ Clothing Company had a bank line of credit balance $27,000 in year 1, and a $35,000 balance in year 2. The cash flow from investment activities section of the company's year 2 cash flow statement would show a positive cash flow adjustment (cash inflow) of $8,000 (see cash flow statement example below).

  - Example 2: When a company has an increase in the amount of owner's contribution on their balance sheet (when compared to the prior reporting period), it means that the company had an inflow of cash in the form of an investment from the owner. According to their balance sheet, the XYZ Clothing Company had an owner's contribution balance of $1,000 in year 1, and a $11,000 balance in year 2. The cash flow from investment activities section of the company's year 2 cash flow statement would show a positive cash flow adjustment (cash inflow) of $10,000 (see cash flow statement example below).

XYZ Clothing Company, LLC
Cash Flow Statement - Accrual Basis Accounting
Year Ending December 31, 20XX

Beginning Cash Balance	**$**	**5,000**
Cash Flow from Operating Activities		
Net Income	$	111,000
Adjustments:		
Depreciation	$	10,000
Decrease/(Increase) in Accounts Receivable	$	(5,000)
Decrease/(Increase) in Inventory	$	(40,000)
Decrease/(Increase) in Prepaid Expenses	$	7,000
Increase/(Decrease) in Accounts Payable	$	(25,000)
Increase/(Decrease) in Payroll Tax Payable	$	2,000
Increase/(Decrease) in Credit Card Payable	$	3,000
Net Cash from Operating Activities	**$**	**63,000**
Cash Flow from Investment Activities		
Sale/(Purchase) of Property, Plant, & Equipment	$	(10,000)
Sale/(Purchase) of Investments	$	1,000
Decrease/(Increase) in Life Insurance Cash Value	$	-
Net Cash from Investment Activities	**$**	**(9,000)**
Cash Flow from Financing Activities		
Proceeds/(Payment) from Bank Line of Credit	$	8,000
Proceeds/(Decrease) in Long-Term Debt	$	(15,000)
Owner's Contribution	$	10,000
Owner's Distribution	$	(5,000)
Net Cash from Investment Activities	**$**	**(2,000)**
Ending Cash Balance	**$**	**57,000**