CFO, CFI, & CFF

The Cash Flow Statement shows where the firm’s cash is coming from and where it’s going. All of that cash is tracked in one of three places:
- Operations
- Investing
- Financing

CFO

Net Income
+ Depreciation Expense
– (Change in Operational Assets)
+ (Change in Operational Liabilities)

Cash Flow from Operations

- It starts with Net Income
  The profit you made after all those costs were deducted from your sales revenue. (See Income Statement sheet)

- Then add in Depreciation Expense
  Why add it when you just subtracted it to get Net Income? Because Depreciation isn’t cash. You took it out to get the tax break on the Income Statement. But since now we’re looking at cash flows, you have to put that amount back in to Net Income.

- Subtract the change in Operational Assets
  Assets cost cash to get. So, if your assets go up (you bought stuff), it means cash went down. If your assets went down (you sold them), it means cash went up.
  
  What are operational assets? Everything in Current Assets except cash. You will be subtracting the change, so if the assets went down, you’re subtracting a negative. (Remember, 12 minus -9 is NOT 3. It is 21!)

- Add the change in Operational Liabilities
  Liabilities get us cash. So, if your liabilities go up (you borrowed money), it means cash went down. If liabilities went down (you paid them off), cash went down.
  
  What are operational liabilities? Everything in Current Liabilities except Notes Payable. The change is the difference between the previous year and the current year. You will be adding this, so if the liabilities went down, you’re adding a negative. (Remember, 12 plus -9 is NOT 21. It is 3!)

CFI

– (Change in Gross PP&E)

Cash Flow from Investing

- It starts with the change in Gross PP&E
  The gross fixed assets, NOT the net. Because net is found by subtracting depreciation, which is not cash.

- Then, you make it the opposite
  Since increasing assets decreases cash, and decreasing assets increases cash, just change it to the additive inverse to get CFI

CFF

(Change in Long-Term Debt)
+ (Change in Notes Payable)
– Dividends

Cash Flow from Financing

- It starts with the change in Long-Term Debt
  Long-term debt is the loans your company took out to get more cash. When it goes up, cash goes up. Note: If it goes down, that means cash goes down, so make sure the number is a negative.

- Then add the change in Notes Payable
  Notes Payable are the short-term loans (1 year or less) that your company took out to get more cash. When Notes Payable goes up, cash goes up. Note: If it goes down, that means cash goes down, so make sure the number is a negative.

- Finally, subtract the Dividends paid
  When your company makes money (Net Income), it is either kept or given away. The kept part goes into Retained Earnings. The given away part is Dividends. If you need to figure out what the dividends are, just do: Net Income – Change in Retained Earnings = Dividends

WHAT IS “CHANGE IN”?
Change is the difference between the previous year’s amount on the Balance Sheet and this year’s amount. Example:

<table>
<thead>
<tr>
<th>Notes Payable</th>
<th>Last Year</th>
<th>Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$125k</td>
<td>$137k</td>
</tr>
</tbody>
</table>

Change in Notes Payable: $137k – $125k = $12k
From last year to this year, Notes Payable went up by $12k
If it goes down, make sure you enter it as a negative number!

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