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

WHAT IS "CHANGE IN"?

Change is the difference between the previous year's amount on the Balance Sheet and this year's amount. Example:

	Last Year	Current Year
Notes Payable	$125k	$137k

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!

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 up. 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 liabilties 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