CH. 17 CHEAT CARD — THE STATEMENT OF CASH FLOWS

1 THE THREE ACTIVITIES — every cash flow lands in exactly one

OPERATING

day-to-day flows — the transactions

that make NET INCOME · trading securities too

MAP: current assets & current liabilities

INVESTING

buy & sell plant assets, intangibles

& non-trading investments · loans made & collected

MAP: noncurrent assets

FINANCING

issue & repay debt · issue equity

buy treasury stock · PAY dividends

MAP: noncurrent liabilities & equity

2 THE US-GAAP TRAPS — five rulings, one worth circling

PAID

dividends PAID → CFF

interest PAID → CFO

the ONE line that leaves operating

RECEIVED

dividends RECEIVED → CFO

interest RECEIVED → CFO

income-statement territory

TAXES · THE MAP EXCEPTION

income taxes → CFO

dividends payable · notes payable → CFF

current liabilities, but they belong to financiers

3 THE FORMAT + THE CHECK FIGURE — how every statement ends

THE SKELETON

operating → investing → financing

= net increase (decrease) in cash

two methods, same CFO — only the display differs

THE CHECK FIGURE

CFO + CFI + CFF = Δ in cash

Δ in cash = ending − beginning

per the BALANCE SHEET — it must tie

NONCASH ACTIVITIES

stock or debt issued for assets

conversions · exchanges · seller-financed

separate schedule or note — never ON it

THE EXAM TRAPS: net income is not cash · only dividends PAID leave operating · noncash deals are disclosed, never listed

CH. 17 CHEAT CARD — THE INDIRECT METHOD

1 OPERATING — the five adjustments, and the 2×2 that orders them

CFO = NET INCOME ± ADJUSTMENTS

1 add depreciation & amortisation · 2 add losses

3 subtract gains · 4 Δ operating assets · 5 Δ operating liabilities

→ a reconciliation of profit to cash — never a recount

THE 2×2

asset ↑ deduct · asset ↓ add

liability ↑ add · liability ↓ deduct

cash moves WITH liabilities (non-interest-bearing), AGAINST assets

2 INVESTING & FINANCING — dig the cash out of the accounts

THE EQUIPMENT T-ACCOUNT

beg + purchases − cost of sold = end

solve it for the missing piece

cash out = purchases · cash in = proceeds

THE DISPOSAL

book value = cost − accumulated depreciation

proceeds − book value = gain or loss

proceeds → investing · loss/gain → operating

THE DIVIDENDS TWO-STEP

① R/E: beg + net income − DECLARED = end

② payable: beg + declared − PAID = end

no payable balance? paid = declared

3 THE PROOF — and the loss/gain trap

THE CHECK FIGURE

CFO + CFI + CFF = Δ cash

beginning cash + Δ = ending cash

must equal the balance sheet — always

THE LOSS / GAIN TRAP

a LOSS is ADDED BACK in operating

its cash sits in INVESTING, at the proceeds

a gain is subtracted, same logic

US GAAP HOMES

dividends PAID → financing

interest paid/received → CFO

income taxes → operating

THE EXAM TRAPS: depreciation is not cash — add it back · the loss is added back, its cash sits in investing · Δ cash must tie to the balance sheet

CH. 17 CHEAT CARD — THE DIRECT METHOD

1 THE FIVE FORMULAS — convert each line, in the order listed

CUSTOMERS AND SUPPLIERS

RECEIPTS = sales − ↑ receivables + ↓ receivables

PURCHASES = COGS + ↑ inventory − ↓ inventory

PAID TO SUPPLIERS = purchases − ↑ payables + ↓ payables

two steps: through inventory, then through payables

EXPENSES, INTEREST, TAXES

OPEX PAID = expenses + ↑ prepaids − ↓ prepaids

+ ↓ accrued liabilities − ↑ accrued liabilities

INTEREST PAID = expense − ↑ payable + ↓ payable

TAXES PAID = expense + ↓ payable − ↑ payable

2 THE VANISHING LINES — the trap the direct method sets

NEVER SHOWN, DIRECT METHOD

- **depreciation · depletion · amortization · bad debt expense**
- **gains and losses on disposals**

no cash moved — there is no line for them

THE SAME ITEMS, INDIRECT

- **added back to (or out of) net income**
- **depreciation + · losses + · gains −**

one reason, two treatments

3 DIRECT vs INDIRECT — same total, and the proof

WHAT EACH SHOWS

direct: receipts and payments

indirect: net income → cash

both are accepted under GAAP

THE SAME ANSWER

operating cash is IDENTICAL

either way — never re-derive it

only the display changes

THE CHECK FIGURE

CFO + CFI + CFF = Δ cash

Δ cash = ending − beginning

must tie to the balance sheet

THE EXAM TRAPS: depreciation never appears on a direct statement · inventory adjusts purchases, payables adjust payments · same CFO both ways

CH. 17 CHEAT CARD — READING THE STATEMENT OF CASH FLOWS

1 THE TWO READINGS THAT NEED NO RATIO — the signs, and cash against profit

THE THREE-SIGN SIGNATURE (operating · investing · financing)

− − + young: operations burn cash, financing covers it

+ − − mature: the core business funds itself

+ on INVESTING can mean assets are being SOLD

− − + is normal for a start, never sustainable

OPERATING CASH AGAINST NET INCOME

cash AHEAD of profit → the healthy case

profit far AHEAD of cash → ask how revenue was recognised

a cash flow that LURCHES year to year is the riskier business

you want cash above profit, and steady

2 FREE CASH FLOW — the number analysts reach for first

FREE CASH FLOW = operating cash − cash spent on property, plant and equipment

AS A SHARE OF SALES = free cash flow ÷ net revenue

what is left after the replacement bill — without shrinking

3 THE RATIOS — every one with OPERATING CASH on top

RETURN · PER SHARE

to revenue: ÷ net revenue

on assets: ÷ average total assets

on equity: ÷ average stockholders' equity

to income: ÷ operating income

PER SHARE: (operating cash − preferred dividends)

÷ common shares outstanding — not reported under GAAP

COVERAGE

DEBT: ÷ interest-bearing debt

INTEREST, cash basis:

(operating cash + interest paid + taxes paid)

÷ interest paid

the add-backs came out before

operating cash was struck

SUFFICIENCY · SECTIONS

reinvestment: ÷ cash paid for long-term assets

debt payment: ÷ long-term debt repaid

dividend payment: ÷ dividends paid

÷ investing total · ÷ financing total

under ONE = the bill beat the year's cash

something else, usually borrowing, filled the gap

THE EXAM TRAPS: a plus on investing can be asset sales · profit far ahead of cash is a question, not a win · formulas, not figures