

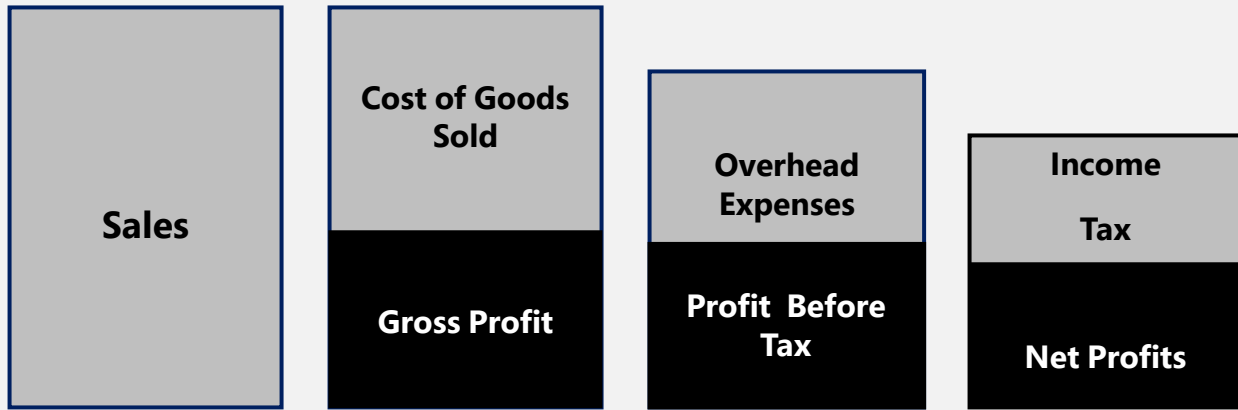
Handout Resources

Lesson 1 Resources

Business
**Cash Flow
Essentials**



INCOME STATEMENT (PROFIT & LOSS STATEMENT)



BALANCE SHEET

CURRENT ASSETS

- Cash
- Accounts Receivable
- Inventory

FIXED ASSETS

- Land
- Building
- Equipment
- Furniture & Fixtures

=

CURRENT LIABILITIES

- Accounts Payable
- Short-Term Debt

LONG-TERM LIABILITIES

- Long-Term Debt

EQUITY

- Retained Earnings
- Capital

CASH FLOW STATEMENT

Operating Activities (CFFO)

Investing Activities (CFFI)

Financing Activities (CFFF)

Comprehensive Cash Flow

	Operating Activities	Investing Activities	Financing Activities	General Explanation
#1	+	+	+	Company is using cash generated from operation and from sale of assets and from financing to build up pile of cash – very liquid company- possibly looking for acquisition
#2	+	-	-	Company is using cash flow generated from operations to buy fixed assets and to pay down debt or pay owners
#3	+	+	-	Company is using cash from operations and from sale of fixed assets to pay down debt or pay owners
#4	+	-	+	Company is using cash from operations and from borrowing (or from owner investment) to expand
#5	-	+	+	Company's operating cash flow problems are covered by sale of fixed assets and by borrowing or by shareholder contributions
#6	-	-	+	Company is growing rapidly but has shortfalls in cash from operations and from purchase of fixed assets financed by long term debt or new financing by owners
#7	-	+	-	Company is financing operating cash flow shortages and payments to creditors and/or stockholders via sale of fixed assets
#8	-	-	-	Company is using cash reserves to finance operation shortfall and pay long term creditors and/or investors

Here's an example of how to create a cash flow statement pattern.

COMPREHENSIVE CASH FLOW (FCF)		(line 10 + 16 + 23)	(23)	123	
Beginning Cash			35	12	
Plus:	Operating Cash Flow	(line 10)	389	396	+
	Investing Cash Flow	(line 16)	(273)	(260)	-
	Financing Cash Flow	(line 23)	(139)	(13)	-
Ending Cash			12	135	

Activity Pattern

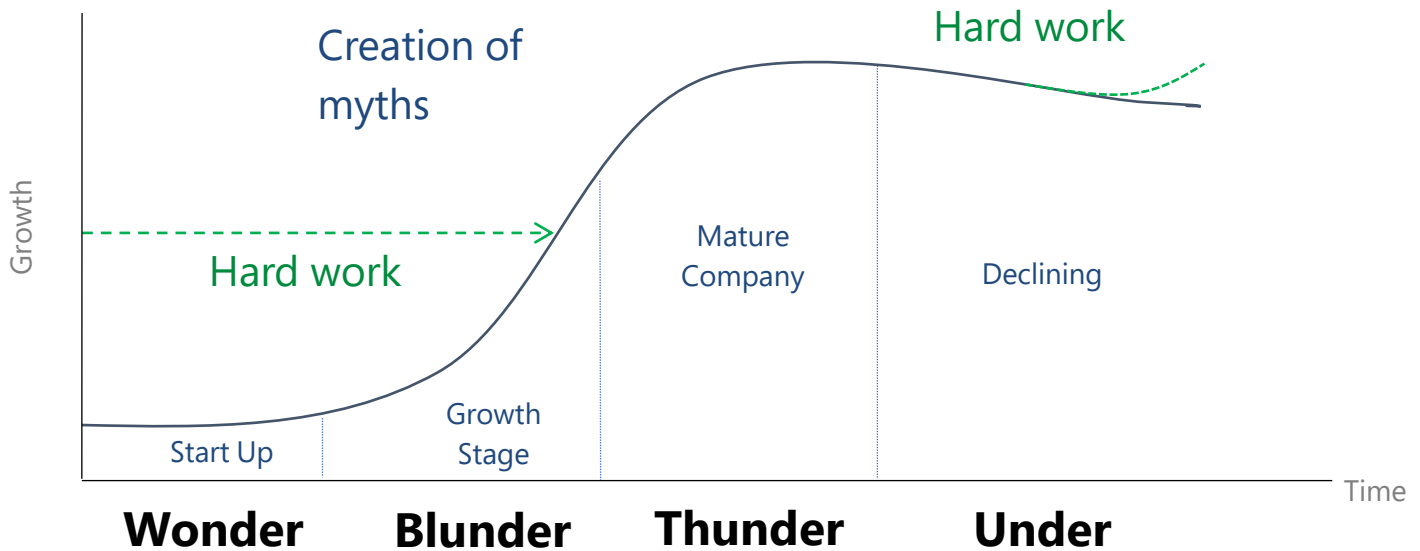
Positive Effect: A source of cash, an increase in cash, or a positive amount on the cash flow statement

Negative Effect: A use of cash, a decrease in cash, or a negative amount on the cash flow statement.

**OLD DOMINION FREIGHT LINES
BALANCE SHEET AS OF Dec 31
(Millions) Rounded**

ASSETS	2015	2016	Change	
Cash	\$ 12	\$ 135		→ <input type="text"/>
Accounts Receivable	\$ 345	\$ 250	\$ 95	
Inventory	\$ -	\$ -	\$ -	
Other Current Assets	\$ 25	\$ 25	\$ -	
TOTAL CURRENT ASSETS	\$ 382	\$ 410		<input type="text"/>
Property, Plant & Equipment NET	\$ 2,023	\$ 2,283	\$ (260)	→ <input type="text"/>
Goodwill	\$ 19	\$ 19	\$ -	
Other Assets	\$ 41	\$ 41	\$ -	
TOTAL FIXED ASSETS	\$ 2,083	\$ 2,343		
LIABILITIES AND EQUITY				
Accounts Payable	\$ 258	\$ 284	\$ 26	→ <input type="text"/>
Short Term Debt	\$ 27	\$ 25	\$ (2)	
Other Current Liabilities	\$ -	\$ -	\$ -	
Current Liabilities	\$ 285	\$ 309		→ <input type="text"/>
Long Term Debt	\$ 107	\$ 97	\$ (10)	
Deferred Taxes	\$ 235	\$ 146	\$ (89)	
Other Liabilities	\$ 154	\$ 140	\$ (14)	
TOTAL LIABILITIES	\$ 781	\$ 692		
Common Stock	\$ 8	\$ 7	\$ (1)	→ <input type="text"/>
Capital Surplus	\$ 134	\$ 134	\$ -	
Retained Earnings	\$ 1,542	\$ 1,920	\$ 378	
EQUITY	\$ 1,684	\$ 2,061		

	ACCOUNT	YEAR				
		2015	2016			
1	Net Income After Tax		305			
2	Accounts Receivable	decrease (increase)	(3)			
3	Inventory	decrease (increase)	0			
4	Other Current Assets	decrease (increase)	26			
5	Accounts Payable	increase (decrease)	67			
6	Accrued Expenses	increase (decrease)	(3)			
7	Income Tax Payable and Deferred Taxes	increase (decrease)	14			
8	Other Current Liabilities	increase (decrease)	(3)			
9	Other Non-Current Liabilities	increase (decrease)	(14)			
10	OPERATING (CFFO)		389			
11	Marketable Securities	decrease (increase)	-			
12	CAPEX Investment	decrease (increase)	(297)			
13	Gross Fixed Asset	decrease (increase)	24			
14	Non-Recurring Gain (loss)		-			
15	Intangible and Other Non-Current Assets	decrease (increase)	-			
16	INVESTING (CFFI)		(273)			
17	Short-Term Bank Debt	increase (decrease)	-			
18	Long-Term Bank Debt	increase (decrease)	12			
19	Long Term Debt Reduction	increase (decrease)	(37)			
20	Capital Stock	increase (decrease)	(114)			
21	Adjustments to Retained Earnings/Dividends Paid		-			
22	Minority Interest	increase (decrease)	-			
23	FINANCING CASH FLOW (CFFF)		(139)			
24	COMPREHENSIVE CASH FLOW (FCF)	(line 10 + 16 + 23)	(23)			
25	Beginning Cash		35			
26	Plus: Operating Cash Flow	(line 10)	389			
27	Investing Cash Flow	(line 16)	(273)			
28	Financing Cash Flow	(line 23)	(139)			
29	Ending Cash		12			



You probably didn't consider your cash flow statement to be report on the lifecycle state your company is experiencing. But the truth is, companies in the various stages of life, often exhibit similar cash flow statement patterns.

If you are unfamiliar with cash flow statement pattern analysis, it refers to assigning a positive or negative sign to each of the three cash flow statement sections. Starting with the operating activities, then investing activities, and lastly financing activities; the symbols attached to the change in cash will form a pattern. If the change in cash in a section was positive, you apply a plus sign. You would use a minus sign if the cash flow section has a negative change in cash. See the example below.

COMPREHENSIVE CASH FLOW (FCF)	(line 10 + 16 + 23)	(23)	123
Beginning Cash		35	12
Plus: Operating Cash Flow			396
Investing Cash Flow			(260)
Financing Cash Flow			(13)
Ending Cash		12	135

Activity Pattern

+

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Activity Pattern

This pattern is an indicator of what management is doing with cash inside of the company. Below are the typical patterns displayed by companies in each lifecycle stage and the behaviors of the management team at the time.

Now let's interpret the results so you can see the typical actions of companies at each stage.

WONDER — — + Start Up

This company is growing rapidly but has shortfalls in cash from operations and from purchase of fixed assets financed by long term debt or new financing by the owners.

BLUNDER + — + Growth Stage

A Blunder Stage company is using cash from operations and from borrowing (or from owner investment) to expand its operations.

THUNDER + — — Mature Company

A mature company can usually be seen using cash flow generated from operations to buy fixed assets and to pay down debt or pay owners.

UNDER — + + Declining

A company in decline may be trying to solve their operating cash flow problems by selling fixed assets and by borrowing or asking shareholder contributions.