

Statement of cash flows

- 1 Okay. Today class—we're going to go over the statement of cash flows.
- 2 I have an example of one right here.
- 3 So, first of all, with the statement of cash flows, like any of our financial statements—
- 4 we've already talked about the income statement, the balance sheet, the statement of retained earnings;
- 5 this is the fourth one, the statement of cash flows—
- 6 with any of our financial statements you're going to have the name of the company—
- 7 so here in my example, XYZ Company—
- 8 you're going to have the title of the financial statement—
- 9 so if it's a balance sheet, obviously you have "Balance sheet" there, but we're looking at a statement of cash flows, so there is that title.
- 10 You're going to tell them what year we're looking at.
- 11 So this is for the year ended December 31, 2013.
- 12 So we're looking at the cash flows over the whole year of 2013 in this example right here.
- 13 And then also we say that this is in thousands of dollars.
- 14 And that's pretty typical.
- 15 We're going to knock off the last three zeros when we have numbers—amounts here, just so that our numbers aren't getting too big, so we knock off some of the zeros—sometimes it's three, sometimes it's six—could be in millions of dollars too, for really large companies.
- 16 Okay. The next part is—for the statement of cash flows—is divided into three sections.
- 17 So you're going to have an operating section.
- 18 You're going to have an investing section.
- 19 And you're going to have a financing section.
- 20 And what you're doing is you're showing the cash flows for the year—in this example, 2013—in one of these three areas, okay?
- 21 Now, the operating section—this is related to our earnings, okay?—directly related to our operations of this company.
- 22 So whatever this company is in business doing, all the earnings type transactions go into the operating section.
- 23 The next section is the cash flow from investing activities.
- 24 These are investments into the company by—investments that we're making in the company to—maybe stocks or bonds—but typically to fixed assets—equipment is a very common one—that's the example we have in our textbook.
- 25 So investing in something that's going to generate us money in the future, okay?
- 26 So it could be a positive or a negative.
- 27 It's negative cash flow for purchasing this investment, for example, equipment.
- 28 If we're later selling this equipment, it could be a positive cash flow from the sale of that equipment.
- 29 And in the last section of this is the cash flow from financing activities.
- 30 Now, remember: we finance our company through liabilities, okay?—so typically it might be a bank or a financing company—or we finance through the owners—owners investing within the company, okay?
- 31 So anytime that owners make investments or we borrow money from the bank, that's a positive cash flow, and this is going to go up.
- 32 It's going to be a positive cash flow.
- 33 So you'll see a positive dollar amount in this section.
- 34 If we're paying a loan off, or if we're maybe paying dividends to the owners of the company—to our shareholders—that will be a reduction in cash, and you'll see cash going down, okay?
- 35 So all three sections, once again, have activity taking place with respect to these areas, and it can be a positive cash flow or a negative cash flow, okay?
- 36 Now, once we have all of our activities taking place in their—all of their dollar amounts, then we will total them up and see there's going to be a net increase or a net decrease in cash—
- 37 once you add up all the transactions, all the cash transactions that are taking place in the company, okay?
- 38 So once we have that increase or decrease, we are going to look at the beginning cash balance—what was our cash balance at the beginning of the year.
- 39 Then we're going to add or subtract the net increase or decrease, and then that will give us our ending cash balance, okay?
- 40 Now, think for a second.
- 41 Where would that ending cash balance be?

- 42 Remember in previous videos I told you that these financial statements have interrelationships, called *articulation*.
- 43 And this is in interrelationship with one of the other financial statements.
- 44 Where does cash go? Okay?
- 45 I'm sure you realize that it goes on the balance sheet.
- 46 So this cash at the end of the year, whatever that dollar amount ends up being, will also be the ending cash balance on our balance sheet.
- 47 So, once again, there's that interrelationship, all right?
- 48 So, good luck with accounting!
- 49 If you need more insistence on this, the textbook does a great job explaining this in more detail, or watch the video again.
- 50 Thanks!