Cash Flow Statement

What is a 'Cash Flow Statement'

A cash flow statement is one of the quarterly financial reports publicly traded companies are required to disclose to the U.S. Securities and Exchange Commission (SEC) and the public. The document provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources, as well as all cash outflows that pay for business activities and investments during a given quarter.

BREAKING DOWN 'Cash Flow Statement'

There are two forms of accounting: cash and accrual. Most public companies use accrual accounting, which means the income statement in the annual report is not the same as the company's cash position. For example, if a company lands a major contract, this contract is recognized as revenue, and therefore income, but the company may not receive cash until a later date. The accountant says the company is earning a profit on the income statement and paying income taxes on it, but the company may have less cash on hand. Even profitable companies can fail to adequately manage cash flow, which is why the cash flow statement is such a critical tool for analysts and investors. The cash flow statement is split between three different business activities: operations, investing and financing.

Cash Flows From Operations

The first set of cash flow transactions is from operational business activities. Cash flows from operations starts with net income and then reconciles all noncash items to cash items within business operations. For example, accounts receivable is a noncash account. If accounts receivables go up, it means sales are up, but no cash was received at the time of sale. The cash flow statement deducts receivables from net income because it is not cash. Also included in cash flows from operations are accounts payable, depreciation, amortization and numerous prepaid items booked as revenue or expenses but with no associated cash flow.

Cash Flows From Investing

Cash flows from investing activities includes cash spent on property, plant and equipment. This is where analysts look to find changes in capital expenditures (CAPEX). While positive cash flows from investing activities is a good thing, investors prefer companies that generate cash flows primarily from business operations, not investing and financing activities.

Cash Flows From Financing

Cash flows from financing is the last business activity detailed on the cash flow statement. The section provides an overview of cash used in business financing. Analysts use the cash flows from financing section to find the amount paid out in dividends or share buybacks. Cash obtained or paid back from capital fundraising efforts, such as equity or debt, is also listed.

To learn more about the cash flow statement, check out How do changes in [working capital affect a company's cash flow?]

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Cash Flow

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Cash flow is the net amount of cash and

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cash-equivalents moving into and out of a business. Positive cash flow indicates that

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a company's liquid assets are increasing, enabling it to settle debts, reinvest in its business, return money to shareholders, pay expenses and provide a buffer against future financial challenges. Negative cash flow indicates that a company's liquid assets are decreasing. Net cash flow is distinguished from net income, which includes accounts receivable and other items for which payment has not actually been received. Cash flow is used to assess the quality of a company's income, that is, how liquid it is, which can indicate whether the company is positioned to remain solvent.

BREAKING DOWN 'Cash Flow'

The accrual accounting method allows companies to count their chickens before they hatch, so to speak, by considering credit as part of a company's income. "Accounts receivable" and "settlement due from customers" can appear as line items in the assets portion of a company's balance sheet, but these items do not represent completed transactions, for which payment has been received. They do not, therefore, count as cash. (Note that the credit vs. cash distinction is not the same as it is in everyday terminology; proceeds from credit card transactions are considered cash once they are transferred.)

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