

## Cash Flow Statement Analysis

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Cash flow statement gives big picture on a company's historical ability to generate cash that can be used for capital expenses and to pay dividends. Cash flow statement is derived from both Income statement and balance sheet. Cash flow statement classifies all the cash flow into Operating, Financing, and investing cash flows. Cash flow can be presented in two formats; one is direct method and other one is indirect cash flow. Earnings can be manipulated from management but operating cash flow generally provides true picture of earnings and cash generated by firm through its normal operations.

Cash flow statement also provides how cash is generated through its financing and investing activities, can be used to estimate whether a company is generating ample cash from its operations or selling its assets or issuing debt to fund its capital expenses and dividends.

### Classification of Cash flow:

**Operating Cash Flow:** Cash from daily operations. Cash Inflow comes from selling inventory or providing services results cash sales and from collecting cash from account receivables. Cash out flow results from manufacturing operations, paying salaries and inventory, taxes and from paying account payables.

**Investing Cash Flow:** include investments in Plant, Property, and equipment. Also from purchasing selling investments that are long term in nature. Trading securities and anything in short term in nature fall under operating activity.

**Financing Cash Flow:** Cash from issuing and paying the long-term debt. Two major resources of capital are creditors and shareholders. Cash inflow comes from issuing stock to shareholders and selling bonds to creditors. Cash out flows come from repurchasing stock (Treasury stock) , repaying bonds and from paying dividends to shareholders.

### Quiz:

*In year 1 a company recorded the following:*

<i>Equity in earnings of affiliate</i>	<i>\$25,000</i>
<i>Purchase of equipment</i>	<i>\$75,000</i>
<i>Proceeds from issuing debt</i>	<i>\$400,000</i>
<i>Loss on sale of equipment</i>	<i>\$55,000</i>
<i>Proceeds from sales of equipment</i>	<i>\$35,000</i>

*On Year 1 cash flow from investing is: (\$40,000)*

*Proceeds from issuing debt affect cash flow from financing. Loss from sale of equipment and equity in earnings affect operating cash flow. Purchase of equipment and proceeds from sale are only two come into investing activities.*

Companies sometimes engage in non-cash investing and financing activities may not reflect in cash flow statements. For example exchanging non-monetary assets with other companies, or issue common stock for dividends or in connection with conversion of bonds and preferred stocks. Any Significant non cash transactions must be disclosed in a separate note or supplementary schedule to cash flow statement.

There are few difference in cash flow statements prepared under IFRS and U.S. GAAP. It is very useful to know the differences when comparing US firm's free cash flow and European company's cash flow. For example companies like Oracle and SAP in Enterprise software business and compete for same kind customer base. Since they report their operating cash flow and investing cash flow differently, as an analyst you may need to adjust minor few line items to get accurate comparable numbers.

It is important to know under U.S. GAAP (straight forward) Interests, dividends and Taxes paid (received) are reported under operating cash flow, except dividend paid reported under financing cash flow.

Under IFRS, Interest received can be reported as Operating or investing cash flow. Interest paid can be Operating or financing cash flow. Dividends also treated exactly the same. Dividends received can be operating or investing cash flow. Dividends paid can be either operating or financing cash flow. Taxes paid most part operating, however a portion can be allocated to investing or financing cash flow.

Bank overdrafts are considered as part of cash equivalents under IFRS, financing under U.S. GAAP.

Direct method shows specific cash in and outflows related to company receipts and disbursements adjusting income statement items and remove effects of accruals. Direct method provides specific sources of operating cash receipts and payments, indirect method shows net results of receipts and payments. With direct method analysts get sources of cash in and out flows which is useful to understand historical performance and predicting future cash flows. Both IFRS and U.S. GAAP encourages direct method of cash flows but allows indirect cash flow reporting.

Illustration of Cash Flow Statement under direct method under U.S. GAAP

**TECH DATA CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS**

(In thousands)

	2015	Year ended January 31,	2014
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$29,380,493	\$	28,253,552
Cash paid to vendors and employees	(29,177,542)		(27,775,887)
<i>Interest paid</i>	(24,546)		(23,082)
<i>Income taxes paid</i>	(59,024)		(75,435)
<b>Net cash provided by operating activities</b>	<b>119,381</b>		<b>379,148</b>
<b>Cash flows from investing activities:</b>			
Acquisition of businesses, net of cash acquired	0		6,377
Acquisition of trademark	0		(1,519)
Expenditures for property and equipment	(18,639)		(15,598)
Proceeds from sale of fixed assets	7,121		0
Software and software development costs	(9,536)		(13,271)
<b>Net cash used in investing activities</b>	<b>(21,054)</b>		<b>(24,011)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from the reissuance of treasury stock	1,456		1,139
Cash paid for purchase of treasury stock	(52,997)		0
Repayments on long-term loans from joint venture partner	0		0
Acquisition of non-controlling interest in joint venture	0		0
Return of capital to joint venture partner	0		0
Acquisition earn-out payment	(5,060)		(6,183)
Proceeds from issuance of Senior Notes, net of expenses	0		0
Net borrowings (repayments) on revolving credit loans	7,269		(122,656)
Principal payments on long-term debt	(546)		(538)
Excess tax benefit from stock-based compensation	749		927
<b>Net cash (used in) provided by financing activities</b>	<b>(49,129)</b>		<b>(127,311)</b>
Effect of exchange rate changes on cash and cash equivalents	(72,057)		1,711
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(22,859)</b>		<b>229,537</b>
Cash and cash equivalents at beginning of year	570,101		340,564
Less: Cash balance of businesses held for sale at end of year	4,247		0
<b>Cash and cash equivalents at end of year</b>	<b>\$ 542,995</b>	<b>\$</b>	<b>570,101</b>

Reconciliation of net income to net cash provided by operating activities:		
Net income attributable to shareholders of Tech Data Corporation	\$ 175,172	\$ 179,932
Net income attributable to non-controlling interest	0	0
Consolidated net income	175,172	179,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on disposal of subsidiaries	1,330	0
Depreciation and amortization	68,746	72,979
Provision for losses on accounts receivable	10,415	11,725
Stock-based compensation expense	13,668	8,858
Accretion of debt discount on Senior Notes and convertible senior debentures	264	264
Deferred income taxes	(335)	(53,484)
Excess tax benefit from stock-based compensation	(749)	(927)
Gain on sale of fixed assets	(2,350)	0
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	22,166	(36,031)
Inventories	245,474	(209,383)
Prepaid expenses and other assets	31,829	77,737
Accounts payable	(469,757)	321,254
Accrued expenses and other liabilities	23,508	6,224
Total adjustments	(55,791)	199,216
Net cash provided by operating activities	\$ 119,381	\$ 379,148

Illustration of Cash Flow Statement under indirect method under U.S. GAAP

**APPLE INC CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)

	September 27, 2014	Years ended September 28, 2013
Cash and cash equivalents, beginning of the year	\$ 14,259	\$ 10,746
<b>Operating activities:</b>		
Net income	39,510	37,037
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	7,946	6,757
Share-based compensation expense	2,863	2,253
Deferred income tax expense	2,347	1,141
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,232)	(2,172)
Inventories	(76)	(973)
Vendor non-trade receivables	(2,220)	223
Other current and non-current assets	167	1,080
Accounts payable	5,938	2,340
Deferred revenue	1,460	1,459
Other current and non-current liabilities	6,010	4,521
<b>Cash generated by operating activities</b>	<b>59,713</b>	<b>53,666</b>
<b>Investing activities:</b>		
Purchases of marketable securities	(217,128)	(148,489)
Proceeds from maturities of marketable securities	18,810	20,317
Proceeds from sales of marketable securities	189,301	104,130
Payments made in connection with business acquisitions, net	(3,765)	(496)
Payments for acquisition of property, plant and equipment	(9,571)	(8,165)
Payments for acquisition of intangible assets	(242)	(911)
Other	16	(160)
<b>Cash used in investing activities</b>	<b>(22,579)</b>	<b>(33,774)</b>

**Financing activities:**

Proceeds from issuance of common stock	730	530
Excess tax benefits from equity awards	739	701
Taxes paid related to net share settlement of equity awards	(1,158)	(1,082)
Dividends and dividend equivalents paid	(11,126)	(10,564)
Repurchase of common stock	(45,000)	(22,860)
Proceeds from issuance of long-term debt, net	11,960	16,896
Proceeds from issuance of commercial paper, net	6,306	0
<b>Cash used in financing activities</b>	<b>(37,549)</b>	<b>(16,379)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(415)</b>	<b>3,513</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 13,844</b>	<b>\$ 14,259</b>
Supplemental cash flow disclosure:		
Cash paid for income taxes, net	\$ 10,026	\$ 9,128
Cash paid for interest	\$ 339	\$ 0