

Statement of Cash Flow ~ Help Screen

Enter Company Name

Select a Financial Statement

Exit Screen

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Understanding the Statement of Cash Flow ...

Instinctually at first it is not uncommon to begin analyzing the Statement of Cash Flow with the state of mind used when studying a Balance Sheet. The problem, this is **wrong**. One must remember it is not the actual Balance Sheet account that you are reviewing, but how the changes within that account balance relates to Cash Flow within the organization.

So if you're seeing a negative amount, that does **not** mean the general ledger account balance value decreased and visa-versa, if you're seeing a positive amount that does **not** mean the general ledger balance increased.

We are discussing – **Cash Flow** - and how a Balance Sheet General Ledger account affects cash

So here we go

When analyzing a Statement of Cash Flow, pay close attention to the Account Class (I ~ Income, A ~ Asset, L ~ Liability, M ~ Manual Overriding Entries)
The account classification is located on the left-side of the Statement of Cash Flow worksheet.

When analyzing the Statement of Cash report a **positive** amount reported is an **increase in Cash Flow** within all categories, being ICF, OCF and FCF.

A Statement of Cash Flow combines both the Income Statement and the Balance Sheet, and will without doubt demonstrate that **Net Cash from Operations**, Sales, Operating Income, Net Income, Profit or Losses alone do not always equate to a positive cash flow. You will notice this simply by examining the last line within this report, **Ending Cash & Contracts**. The Net Cash from Operations calculation is; Net Income after Taxes (Profit or Loss), plus any Depreciation or Amortization general ledger entries.

Account Classes and how they affect Cash Flow

Asset Class I ~ Income Statement, a positive amount is an increase In Cash Flow; affecting both Net Cash from Operations and Operating Cash Flow (OCF). These values originate from individual fiscal period financial Income Statements. This account class includes Net Income after Taxes (Profit and/or Loss) and Depreciation ~ Amortization entries which are non-cash transaction. A negative amount likely occurs when actual operating losses exceed depreciation entries within a given fiscal period.

Asset Class A ~ Assets, a positive amount is an increase In Cash Flow and usually occurs due to the fact that Assets or Operating Inventories are being sold for cash or the purpose of reducing outstanding liabilities. A negative amount tends to indicate that an organization has increased its general assets or Operating Inventories by either paying cash or acquiring added short-term and/or long-term liabilities.

Asset Class L ~ Liabilities, a positive amount is an increase In Cash Flow and usually occurs when Cash was received or is retained in return for promising or acquiring added short-term and/or long-term liabilities. A negative amount reduces the organizations Cash Flow due to the fact that outstanding liabilities~debt was either paid with a cash payment and/or exchanged for another company asset.

Asset Class M ~ Manual Overriding Entries, a positive amount is an increase In Cash Flow. This is a manual correcting entry made by the workbook user within the Review ~ Balance Sheet Financials – Detailed Cash Flow Analysis Report. The sole intent of allowing manual overrides within this workbook is to maintain a high-level of flexibility when utilizing this software. The likelihood of ever needing to make a manual entry is next to none. The entries made within any given fiscal period are usually done only because a balance sheet ~ financial variable has not yet been posted to the financial statement, but eventually will be posted to the Balance Sheet upon completion of the financial transactions.

Utilizing the Excel® Worksheet Dropdown List Options

The intent of the Statement of Cash Flow Dropdown list is to utilize the power of Excel and allow that worksheet itself to do the simple mathematical calculation required when analyzing General Ledger accounts. You have three available options which are listed below that may be of use when attempting to isolate financial concerns of importance which may perhaps necessitate further research to **preserve a preferred level of Ending Cash ~ Cash Flow**.

Comparison Base-to-Date

Calculates the Balance Sheet General Ledger **change** between the Comparison Statement Period general ledger balance and the **last** entered fiscal period.

Remember, if you're seeing a negative amount, that does not mean the account balance value decreased, it actually increased, and if you're seeing a positive amount that does not mean the general ledger balance increased, it actually decreased.

As for the Comparison Base Period, it is the first month ~ starting period of your financial analysis data. Commonly the first month of financial data is December of the prior year when completing a current year analysis. Additional information may be located on the help screen available on the Default Setting worksheet.

Average Fiscal Period Change

Calculates and displays the average fiscal period change in cash flow through the last processed fiscal period.

These enormously informative values determine if longer term balance sheet financial trends are developing within the organization.

Actual Last Balance Sheet Account Values

Displays the actual Balance Sheet account value of the **last fiscal period** processed. This option is made available because when reviewing the Statement of Cash Flow it is not uncommon to reference the actual values when analyzing cash position changes. Please remember these are **actual** Balance Sheet values and **not** Cash Flow position calculations.

One final note concerning the Statement of Cash Flow Report, Operating Inventories and Operating Inventories ~ Notes Payable. This worksheet does not actually calculate the value for you, but will highlight the total values if they are **not moving in opposite directions**. If this occurs it may be suggesting either a desirable or undesirable notice. A potentially undesirable sign could be both Operating Inventories and Operating Inventories ~ Notes Payable are positive amounts, indicating that assets are being liquidated, yet Operating Inventories ~ Notes Payable are **not being reduced**. A potentially desirable sign would be both Operating Inventories and Operating Inventories ~ Notes Payable are negative amounts, indicating that liquid assets are being acquired, yet Operating Inventories ~ Notes Payable are being reduced, potentially reducing short-term liabilities and interest expenses.

In summary, you must always ask yourself, "Where is the cash coming from and is available cash appropriately utilized within the organization?"