

Statements of Cash Flows: Three Examples

The Assignment

Exhibits 1, 2, and 3 contain cash-flow statements from three companies. Each cash-flow statement has three years of data. Examine the contents of these cash-flow statements carefully. Answer the following questions about each of the three cash-flow statements.

I. For *each* of the years on the Statement of Cash Flows:

1. What were the firm's major sources of cash? Its major uses of cash?
2. Was cash flow from operations¹ greater than or less than net income?² Explain in detail the major reasons for the difference between these two figures.
3. Was the firm able to generate enough cash from operations to pay for all of its capital expenditures?³
4. Did the cash flow from operations cover both the capital expenditures **and** the firm's dividend payments, if any?
5. If it did, how did the firm invest its excess cash?
6. If not, what were the sources of cash the firm used to pay for the capital expenditures and/or dividends?
7. Were the working capital (current asset and current liability) accounts other than cash and cash equivalents primarily sources of cash, or users of cash?
8. What other major items affected cash flows?

II. What was the trend in:

9. Net income?
10. Cash flow from (continuing) operations?
11. Capital expenditures?
12. Dividends?
13. Net borrowing (proceeds less payments of short- and long-term debt)?
14. Working capital accounts?

III. Based on the evidence in the Statement of Cash Flows alone, what is your assessment of the financial strength of this business? Why?

¹ Sometimes called net cash provided by operating activities, or cash flow from continuing operations.

² Alternatively referred to as income or loss from continuing operations.

³ Also called investments in depreciable assets, or purchases of plant, property, and equipment.

Exhibit 1 Alpha Corporation, Consolidated Statements of Cash Flows (\$ millions)

	Year Ended June 30,		
	1991	1990	1989
Operating Activities			
Loss from continuing operations	\$(377.9)	\$(623.5)	\$(320.6)
Depreciation	168.4	220.1	263.4
Amortization of capitalized software	41.4	58.2	39.1
Gain from sale of investments and other assets	(16.6)	(119.0)	—
Restructuring and other unusual items, net	135.5	384.1	125.3
Changes in other accounts affecting operations			
Accounts receivable	160.8	73.4	(45.2)
Inventory	80.2	100.9	(3.0)
Other current assets	17.0	(1.2)	(13.0)
Accounts payable and other current liabilities	(91.3)	(21.3)	41.0
Other	2.8	14.1	(10.5)
Net cash provided by continuing operations	120.3	85.8	76.5
Net cash provided by (used in) discontinued operations	4.9	3.5	(29.7)
Net cash provided by operating activities	125.2	89.3	46.8
Investing Activities			
Investment in depreciable assets	(129.7)	(174.4)	(303.6)
Proceeds from disposal of depreciable and other assets	157.0	242.0	94.1
Proceeds from the sale of discontinued operations	25.3	407.3	—
Investment in capitalized software	(27.8)	(43.1)	(59.5)
Other	(6.0)	(13.0)	14.2
Net cash provided by (used in) investing activities	18.8	418.8	(254.8)
Financing Activities			
(Decrease) increase in short-term borrowings	(2.6)	(222.6)	139.8
Proceeds from long-term debt	44.4	167.7	305.0
Payments of long-term debt	(126.5)	(544.8)	(91.7)
Proceeds from sale of Class B common stock	5.0	8.7	17.5
Purchase of treasury stock	(.3)	(.6)	(18.8)
Dividends paid	-	(7.2)	(26.0)
Net cash provided by (used in) financing activities	(80.0)	(598.8)	325.8
Effect of changes in foreign exchange rates	.1	1.1	(3.9)
Increase (decrease) in cash equivalents	64.1	(89.6)	113.9
Cash and equivalents at beginning of year	169.1	258.7	144.8
Cash and equivalents at end of year	\$233.2	\$169.1	\$258.7

Statements of Cash Flows: Three Examples

Exhibit 2 Beta Corporation, Consolidated Statements of Cash Flows (\$ thousand)

	Year Ended December 31,		
	1991	1990	1989
Cash Flows from Operating Activities:			
Cash received from customers	\$83,865	\$73,273	\$51,110
Cash paid to suppliers and employees	(77,820)	(65,480)	(46,589)
Interest received	643	355	132
Interest paid	(536)	(1,046)	(908)
Income taxes paid	(2,233)	(102)	(75)
Net cash generated by operating activities	<u>3,919</u>	<u>7,000</u>	<u>3,670</u>
Cash Flows from Investing Activities:			
Capital expenditures	(6,031)	(4,600)	(3,650)
Marketable securities purchases	(8,000)	-	-
Net cash used in investing activities	<u>(14,031)</u>	<u>(4,600)</u>	<u>(3,650)</u>
Cash Flow from Financing Activities:			
Net payments under working capital line of credit	-	(2,000)	(860)
Net payments under equipment line of credit	(985)	(126)	(388)
Principal payments under capital lease obligations	(169)	(213)	(276)
Proceeds (payment) of subordinated debt	(5,000)	-	4,400
Proceeds from the issuance of common stock	23,082	141	639
Net cash provided by (used in) financing activities	<u>16,928</u>	<u>(2,198)</u>	<u>3,515</u>
Effect of exchange rate changes on cash	(4)	14	-
Net increase in cash and cash equivalents	<u>6,812</u>	<u>216</u>	<u>3,535</u>
Cash and cash equivalents at beginning of year	<u>5,375</u>	<u>5,159</u>	<u>1,624</u>
Cash and cash equivalents at end of year	<u>\$12,187</u>	<u>\$ 5,375</u>	<u>\$ 5,159</u>
Reconciliation of Net Income to Net Cash Generated by Operating Activities:			
Net income	\$ 6,323	\$ 5,201	\$ 417
Adjustments to Reconcile Net Income to Net Cash Consumed by Operating Activities:			
Bad debt provision	99	47	98
Depreciation and amortization	4,028	2,701	2,231
Amortization of original issue discount	208	324	68
Loss on disposition of assets	17	9	58
Compensation expense related to stock grants	40	85	-
Changes in Assets and Liabilities:			
(Increase) in accounts receivable	(10,837)	(613)	(1,550)
(Increase) decrease in inventory	(951)	(810)	1,043
(Increase) decrease in deposits and other assets	(665)	366	(762)
Increase (decrease) in accounts payable and accrued expenses	<u>5,657</u>	<u>(310)</u>	<u>2,067</u>
Total adjustments	<u>(2,404)</u>	<u>1,799</u>	<u>3,253</u>
Net cash generated by operating activities	<u>\$ 3,919</u>	<u>\$ 7,000</u>	<u>\$ 3,670</u>

Exhibit 3 Gamma Corporation, Consolidated Statements of Cash Flows (\$ thousand)

	Years Ended		
	June 29, 1991	June 30, 1990	July 1, 1989
Cash Flows from Operating Activities:			
Net income/(loss)	\$ (617,427)	\$ 74,393	\$ 1,072,610
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	828,560	796,201	686,738
Other adjustments to income	189,077	92,329	49,702
(Increase)/decrease in accounts receivable	105,977	(241,357)	(373,248)
(Increase)/decrease in inventories	18,616	99,743	(62,942)
(Increase)/decrease in prepaid expenses	(47,239)	(90,602)	18,965
Increase/(decrease) in accounts payable	(17,694)	107,001	30,645
(Decrease) in taxes	(105,614)	(201,560)	(75,502)
Increase in deferred revenues and customer advances	92,222	69,207	105,847
Increase in restructuring reserve	593,160	443,544	-
Increase in other liabilities	1,263	285,175	26,576
Total adjustments	1,658,328	1,359,681	406,781
Net cash flows from operating activities	1,040,901	1,434,074	1,479,391
Cash Flows from Investing Activities:			
Purchase of plant, property, and equipment	(737,548)	(1,027,625)	(1,223,038)
(Increase) of other assets, net	(55,782)	(75,489)	(67,624)
Purchase of Kienzle business	(233,261)	-	-
Net cash flows from investing activities	(1,026,591)	(1,103,114)	(1,290,662)
Net cash flows from operating and investing activities	14,310	330,960	188,729
Net Flows from Financing Activities:			
Proceeds from issuance of debt	14,249	17,661	40,425
Payments to retire debt	(112,426)	(20,896)	(153,245)
Purchase of treasury shares	(240,719)	(270,231)	(814,958)
Issuance of treasury shares, including tax benefits	239,653	296,225	230,733
Net cash flows from financing activities	(99,243)	22,759	(697,045)
Net increase/(decrease) in cash and cash equivalents	(84,933)	353,719	(508,316)
Cash and cash equivalents at beginning of year	2,008,983	1,655,264	2,163,580
Cash and cash equivalents at end of year	\$1,924,050	\$2,008,983	\$1,655,264