Cash Flow

Louise Söderberg, 2010-10-15

Summary

The statement of cash flow reports *the cash generated and used* during the time interval specified in its headings.

A cash flow analysis is a method of checking up your company's financial health and is one of the most important aspects of running any business – large or small.

The statement of cash flow organizes and reports the cash generated and used in the three following categories.

Operating activities - cash from daily business

Investing activities - cash from investing activities and purchase or sale of assets

Financial activities - the issuing of stock or borrowing of funds

Basically, the sections on operation and financing show how the company earns its cash and the investing section shows how the company spends its cash.

The final total shows the net increase or decrease in cash for the given period.

Cash Flow

Cash flow is the movement of cash into or out of a business.
If a company has a strong and positive cash flow, it provides the company opportunities for making investments and developments. If a company has a negative cash flow it eats up the cash and savings. Even if the net profit is positive, a negative cash flow is a warning for the future.

Notice that it is possible to manipulate/raise the cash flow by, for instance, decreasing your day of payment on your customer's invoices and delay your payments to your suppliers. Another way would be for the company to sell its invoices to a third company and hereby get cash earlier. The downside to this is that the company will not get fully compensated for its invoices.

This year’s net Cash Flow equals cash and bank deposits at the end of the year, minus cash and bank deposit at the beginning of the year.

The statement of Cash Flow

Listed companies that are governed by IFRS shall adhere to IAS 7 (International Accounting Standard) when producing a Statement of Cash Flow in its Annual Report.
Other companies, not listed, shall adhere to Redovisningsrådets Accounting Standards Council’s recommendations.
The main difference between the two Regulations is their way of presenting the cash flow from operating activities, the direct or indirect method.

The statement of Cash Flow along with the Income Statement and the Balance Sheet are parts of the company’s Annual Report. The group’s statement of cash flow for Akelius Fastigheter AB is enclosed at the end of this report.

The statement captures both the current operating results and the accompanying changes in the Balance sheet.

The Income statement summarizes a firm’s financial transactions over a time interval.

The Balance Sheet is a snapshot of a firm’s financial resources at a single point in time.

The statement of cash flow includes only inflows and outflows of cash and cash equivalents; it does not, for instance, include depreciation or write-downs on bad debts or credit losses.

Who is interested in the Statement of Cash flow?

> Accounting personnel – who need to know whether the company will be able to cover payroll and other expenses
>
> Potential lenders and creditors – who want a clear picture of the company’s ability to repay
>
> Potential investors – who need to judge whether the company is financially sound

Potential employees – who need to know whether the company will be able to afford compensation

Shareholders of the business

According to IAS 7 the Statement of CF (cash flow) shall show the cash flow from operating activities, investment activities and financing activities over the given time period.

Cash Flow from operating activities

Operating activities information comes mainly from the Income Statement and shows the cash that comes from the company's daily business; that is cash from sales of the company's goods and services minus the amount of cash needed to make and sell those goods and services, such as:

Receipts from sale of goods and services
Receipts from sale of loans, debt or equity instruments in a trading portfolio
Payment to suppliers for goods and services
Payment to employees
Interest payments
Payments or receipts from income tax regarding the daily business

The cash flow of operating activities has to be positive long term otherwise the company risks becoming insolvent – no longer being able to pay its debts. However, notice that high growth companies for instance, technology firms show normally a negative cash flow from operating cash flow the first years.

Cash Flow from investment activities

This section of the statement shows how the cash has been spent on capital expenditures such as:

New equipment
New real estate
Acquisitions of other businesses
Monetary Investments

The term "Free Cash Flow"(FCF) equals the cash flow from Operating Activities minus cash flow from investing activities. Free Cash Flow excludes the financing activities.
FCF shows the "real" cash movements/flows of a company, not manipulated by, for instance, accounting principles and any deferrals or accruals of past or future operating cash receipts or

payments. That is why FCF is used in calculating the discounted value of an investment.

Cash Flow from financing activities

This section of the statement describes the on-going cash associated with outside financing activities such as:

Selling stocks
Bank borrowing
Pay back a bank loan
Dividends payment
Stock repurchases

Selling stocks and borrowing money increase the cash flow. Paying back a bank loan, making dividends payments and repurchasing stocks decreases the cash flow from financing activities.

Discounted Cash Flow

Discounted cash flow calculation is an important tool in making important investments decisions. Firstly, you forecast the free cash flow for a series of coming years. Secondly, you use a discount rate, doing this you need to take two things into consideration, these things are - *inflation and risk*.
A dollar is worth more today than tomorrow, and a safe dollar is worth more than a risky one.

The formula for calculating the discounted cash flow (DCF) is:

DCF (PV= Present Value) formula
Present Value refers to today´s value of a future amount.

$$PV=\frac{C_1}{1+r_1}+\frac{C_2}{(1+r_2)^2}+\ldots\ldots\ldots$$

(r=discount rate)
C_1 = free cash flow year 1
C_2 = free cash flow year 2

Another way of writing this formula would be:

$$PV=\sum\frac{C_t}{(1+r_t)^t}$$

To find the Net Present Value add the initial cash flow (C_0). If the initial cash flow is an investment it is a cash outflow and is a negative number.

$$NPV = C_0 + \sum \frac{C_t}{(1 + r_t)^t}$$

Source references:
Principles of Corporate Finance: Richard A Brealey, Stewart C Myers, Franklin Allen
FAR, Samlingsvolymen 2008

Akelius Fastigheter AB – the groups Statement of Cash Flow

Akelius Fastigheter AB
CIN: 556156-0383

Translation

The group's cash flow analyses	2008/09	2007/08
Operating activities		
Operating surplus	2,026,857	1,087,767
Other income	2,311	2,597
Central administration expenses	-58,711	-21,957
Interest subsidies	10,324	6,063
Interest income and similar items	133,403	20,423
Interest costs and similar items	-1,723,013	-927,448
Tax paid	46,209	-79,496
Cash flow from current management activities	**437,380**	**87,949**
Difference between paid and carried forward operating costs and interest costs	209,521	91,047
Cash flow before working capital changes	**646,901**	**178,996**
Increase in inventory	-179	-229
Increase (-)/decrease (+) in accounts receivable	-34,774	-25,945
Increase(+)/decrease(-) in liabilities	181,725	-30,394
Cash flow from current activities	**793,673**	**122,428**
Investments in intangible fixed assets	-14,935	-
Investments in tangible fixed assets	-2,932,359	-8,365,193
Sale of tangible fixed assets	4,056,586	2,341,971
Increase in financial fixed assets	-48,474	-130,904
Cash-flow from investment activities	**1,060,818**	**-6,154,126**
Included interest-bearing liabilities	57,949,970	13,912,837
Amortisation of interest-bearing liabilities	-58,834,705	-7,855,685
Dividends paid	-1,000,000	-
Cash flow from financing activities	**-1 884,735**	**6,057,152**
Change – cash and bank deposits	**-30,244**	**25,454**
Cash and bank deposits at beginning of year	54,570	29,116
Cash and bank deposits at end of year	**24,326**	**54,570**

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Picture text. The group´s cash flow analyses