

5 Things You Need to Know About Cash Flow Statements

Cash flow is an important part of understanding your company's financials. Today, I'm going to share a few tips about cash flow statements.

What is a statement of cash flows?

The statement of cash flows is one of the financial statements generated by a business that describes the cash flows used and provided by the business based on three types of activity – operating, investing, and financing during a specified period of time.

The **purpose of cash flow statements** is that it shows how cash is being generated and utilized throughout the business based on activities. This is important because we all know cash is KING. Your income statement shows the profit of your business, but that profit might not necessarily be easily converted to cash.

When **analyzing cash flow from operating activities**, start with net income and adjust for transactions that affect operating activities but do not affect cash, for example depreciation expense.

Then adjust for changes in balance sheet accounts that relate to operational activity. And lastly, perform an analysis of cash provided by or used in operating activities.

Cash flow from investing activities involves long-term uses of your cash. These may include:

- Purchase and sale of property and equipment
- Purchase and sale of investments
- Purchase of intangible assets

Cash flow from financing activities gives insights into the financial strength and how well a company's capital structure is managed. These may include:

- Proceeds from and repayment of debt (long-term, lines of credit)
- Capital contributions and distributions

Your cash from operating income should exceed your net income, as that positive cash flow indicates the ability to grow your operations. You may have negative cash flow if you are investing in future growth. The cash flow statement is just one of the financial statements to be reviewed each month. If you need assistance developing your financial statement process or understanding what the numbers are telling you, give SVA a call. We can help you with all your financial reporting needs.

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