The cash flow statement

Entertainment, Games

A Cash flow statement is a financial report that shows the sources of a firm's cash and its uses of cash. In other words, it answers the questions, " where did the cash come from? " and " where did the cash go? " Measuring Firm's Cash Flow You can explain the cash inflows and outflows of a business by looking at three cash flow activities. Cash flow activities:

1. Generating cash flows from day-to-day business operations It is the informative to know how much cash is being generated in the normal course of operating a business on a daily basis, beginning with purchasing inventory on credit, selling on credit, paying for the inventory, and finally collecting on the sales made on credit.
2. Buying or selling fixed assets. When a company buys (or sell) fixed assets, such as equipment and buildings, cash outflows (or inflow) result. These cash flows are not part of the regular day-to-day operations and, consequently, are not included in the income statement. They appear only as changes from one balance sheet to the next.
3. Financing the business. Cash inflows and outflows occur when the company borrows or repays debt; when it distributesmoneyto the owners, such as when dividends are paid; or when the owners put money into the business in the form of additional equity. Profits versus cash flows

Entrepreneurs need to be aware that profits shown on a company's income statement are not the same as its cash flows. An income statement is not a measure of cash flows because it is calculated on an accrual basis rather than a cash basis.

This is an important point to understand in section. In Accrual-basis accounting, profits are recorded when earned- whether or not the profits have been received in cash- and expenses are recorded when they are incurred- even if money has not actually been paid out. In Cash-basis accounting, profits are reported when cash is received and expenses are recorded when they are paid. There are several reasons, including the following, that profits based on an accrual accounting system will differ from the firm's cash flows;

1. Sales reported on an income statement include both cash sales and credits sales. So the total sales do not correspond to the actual cash collected.
2. Cash spent for inventory doesn't represent all inventory purchases since some inventory is financed by credit.
3. The depreciation expense shown in the income statement is a noncash expense.

It reflects the costs associated with using an asset that benefits the firm's operations over a period of several years, such as a piece of equipment used over five years. What every small business owner should ask and understand is, " How do you compute your firm's cash flow? "