

Week 5 DQ 1
Due Tuesday, Day 2

In what ways does the statement of cash flows relate to the balance sheet and income statement?

It is important to understand what we are doing with the numbers and the results these numbers give us because the result is the information that will be available to us from financial statements. Although some want to see the income statement and ignore the other statements we need to use them together to see the total picture of what is happening to our business. The relationship between the numbers on the financial statements shows us everything we need to know about the business.

The income statement shows income and expenses for a period of time and if we are making or losing money. The balance sheet compares the assets to liabilities and shows how much money the business would have if everything is sold today.

The statement of cash flow might be the most critical statement because there is plenty of information we can gain from it. This statement relates with the income statement on operating activities to see if they are generating cash or not. It is related to the balance sheet on how much cash is used in investing activities. In relationship with the balance sheet the cash flow statement shows what cash is provided or used by financing activities. It will tell us how much debt has been paid and will indicate if we are using more debt or have paid down the credit line.

When the business makes a sale or receives payment for a sale on credit that is an inflow. A sale shows up as income on the profit and loss statement and as an inflow on the cash flow statement. It also shows up either as cash or accounts receivable on the balance sheet. Also, how quickly we can collect on accounts receivable will play a big role in the cash flow. When the business spends money, it shows up as an expense in the profit and loss statement and as an outflow on the cash flow statement. It also shows up on the balance sheet as a decrease in cash, or an increase or decrease in liabilities, depending on what the expense represents.

Response 2

In what ways does the statement of cash flows relate to the balance sheet and income statement?

The cash flow statement relates to the income statement and balance sheet. The net income from the income statement is listed on the statement of cash flows. Operating activities are analyzed on the statement of cash flows; this section of the statement reconciles the net income to the actual cash the company received from or used during operations. The second section of the

statement of cash Flows is the cash flow from investing activities which include purchase or sale of assets. The last section in the Statement of Cash Flows is the cash flows from financing activities that includes raising cash by selling stocks/bonds or borrowing from banks; or cash out flows from paying back loans. The balance sheet shows the different account balances at the end of the accounting period. The statement of cash flows reflects changes in the accounts listed on the balance sheet between accounting periods. The net cash from operating, financing, and investing activities are added up to calculate the net change in cash.

Week 5 DQ 2
Due Thursday, Day 4

Discuss how the statement of cash flows is utilized by investors. If you were an investor reviewing a statement of cash flows, what section might interest you most? Why? Discuss the circumstances in which other sections of the statement might be important to an investor.

Prior to making an investment in a company, one would want to understand the decisions the owners are making to fund the operations of the company daily. Maintaining sufficient cash to acquire new product, pay overhead, and satisfy generated sales would be the predominant need of the company. Second need would be for the company to have sufficient cash to remain competitive. This may require cash to invest in research and development, increase inventory as new product introduction, improve efficiency in plant and equipment, or cash to satisfy prior borrowing obligations. By reviewing the statement of cash flow, the investor can determine if the company is generating sufficient cash internally to fund operations or are they requiring outside injection of cash to finance the short fall in cash needed to operate the company. Last, the investor can review the statement of cash flow to better understand the leverage of the company and the requirement for repayment of debt, or dividends to reward prior investments.

Response 2

Discuss how the statement of cash flows is utilized by investors. If you were an investor reviewing a statement of cash flows, what section might interest you most? Why? Discuss the circumstances in which other sections of the statement might be important to an investor.

The statement of cash flow is utilized by investors because it has all information integrated from the balance sheet and the income statement. The statement of cash flow is used by an investor to see if the operating activities are greater than the net income to have earnings that are called "high quality". If operating activities are less, then a red flag will be raised as to why the net income is not becoming cash. Another reason would be investors believe cash is the best. The statement shows all cash coming and going from the business. If the company generates additional cash than what is being used, then the company can reduce their debt, acquire another business, or buy some of the stock back. The last reason why would be that financial models are based upon the statement of cash flow.

If I was an investor reviewing a statement of cash flows the section that might interest me the most would be the operating activities. I would like to know how the company was doing and what areas need to be improved to have more cash generated in the business. All the sections are important to an investor so they can see the complete big picture of their investment.