

## 13.7: The Statement of Cash Flows

### 6. Why is the statement of cash flows an important source of information?

Net profit or loss is one measure of a company's financial performance. However, creditors and investors are also keenly interested in how much cash a business generates and how it is used. The **statement of cash flows**, a summary of the money flowing into and out of a firm, is the financial statement used to assess the sources and uses of cash during a certain period, typically one year. All publicly traded firms must include a statement of cash flows in their financial reports to shareholders. The statement of cash flows tracks the firm's cash receipts and cash payments. It gives financial managers and analysts a way to identify cash flow problems and assess the firm's financial viability.



**Exhibit 14.7** Coinstar is a cash cow—literally. The company established a niche counting loose change at the exits of supermarkets and other retailers everywhere. For a small fee, Coinstar's coin-counting machines turn penny jars and piggy banks into cash vouchers, a no-fee eGift card, or a charity donation. Recently Coinstar's parent company, Outerwall, was acquired by a private equity firm in a \$1.6 billion deal to take the holding company private. *What does the statement of cash flows indicate about a company's financial status?* (Credit: Mike Mozart/ Flickr/ Attribution 2.0 Generic (CC BY 2.0))

Using income statement and balance sheet data, the statement of cash flows divides the firm's cash flows into three groups:

- *Cash flow from operating activities:* Those related to the production of the firm's goods or services
- *Cash flow from investment activities:* Those related to the purchase and sale of fixed assets
- *Cash flow from financing activities:* Those related to debt and equity financing

Delicious Desserts' statement of cash flows for 2018 is presented in [Table 14.3](#). It shows that the company's cash and marketable securities have increased over the last year. And during the year the company generated enough cash flow to increase inventory and fixed assets and to reduce accounts payable, accruals, notes payable, and long-term debt.

Statement of Cash Flows for Delicious Desserts		
Delicious Desserts, Inc.		
Statement of Cash Flows for 2018		
Cash Flow from Operating Activities		
Net profit after taxes	\$27,175	
Depreciation	1,500	
Decrease in accounts receivable	3,140	
Increase in inventory	(4,500)	
Decrease in accounts payable	(2,065)	
Decrease in accruals	(1,035)	
Cash provided by operating activities		\$24,215
Cash Flow from Investment Activities		
Increase in gross fixed assets	(\$ 5,000)	
Cash used in investment activities		(\$5,000)
Cash Flow from Financing Activities		
Decrease in notes payable	(\$ 3,000)	
Decrease in long-term debt	(1,000)	
Cash used by financing activities		(\$4,000)
<b>Net increase in cash and marketable securities</b>		<b>\$15,215</b>

**Table14.3**

## CONCEPT CHECK

1. What is the purpose of the statement of cash flows?
2. Why has cash flow become such an important measure of a firm's financial condition?
3. What situations can you cite from the chapter that support your answer?

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