



#### LESSON CONTENT TEMPLATE

 <p>Erasmus+</p>	<p>Project funded by: <b>Erasmus+ / Key Action 2 - Cooperation for innovation and the exchange of good practices, Knowledge Alliances.</b></p>
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## 1. Lesson Document

Topic 5: Statement of Cash Flow

Lesson 1

### Cash flow statement

#### Introduction

The cash flow statement shows where the cash comes from and where it is going. What you and your stakeholders want to see is a positive cash flow that indicates the day-to-day stability of your business. This financial report is an important addition to your income statement and balance sheet. In this lesson will learn what the main segments of cash flow are.



Resource: [Pixabay](#)

The cash flow statement contains three main segments.

Those segments are (*Book Entrepreneurial Finance Concepts and Cases, 2020*):

1. Cash flows from operating activities,
2. Cash flows from investing activities and
3. Cash flows from financing activities.

**Cash flows from operating activities** - This segment is telling us how much cash is generated from the company's products or services. ( *(CFO) Definition, 2020*).

These activities may include (*Book Entrepreneurial Finance Concepts and Cases, 2020*):

- Revenues from sales of goods and services
- Income tax payments
- Payment of rent
- Salary payments and employee salaries
- Payments to suppliers of goods
- Services used in production etc.

The business owner can choose to calculate cash flows from operating activities in two ways (*Book Entrepreneurial Finance Concepts and Cases, 2020*):

1. Direct and
2. Indirect

**The direct cash flow method** from operating activities shows whether the company is generating enough cash to pay all the bills (*Book Entrepreneurial Finance Concepts and Cases, 2020*).

**The indirect method** begins with net income from the income statement, adjusts for non-cash items such as depreciation and amortization costs, and adjusts changes in current assets and current liabilities to obtain cash flows from operating activities. (*Book Entrepreneurial Finance Concepts and Cases, 2020*)

**Cash flows from investing activities** - Includes all sources and use of money from the company's investments.

These activities may include:

- Purchase or sale of assets,
- Loans that are given to suppliers
- Loans that are received from customers,
- Any payments related to a merger or acquisition etc.

**Cash flows from financing activities** - includes sources of cash from investors or banks, as well as the use of money paid to shareholders (*CFF Definition, 2020*).

These activities may include:

- Dividend payments
- Debt principal repayments
- Share repurchase payments etc.

## Conclusion

By knowing and understanding cash flow, you can look far beyond business profits and losses. And to make a much bigger profit, you can create an idea of the steps to take. If you apply this advice today, you are already one step closer to your entrepreneurial success.