

HOW TO CREATE A CASH FLOW STATEMENT

A cash flow statement is a document, typically generated monthly, quarterly, and/or annually, that shows how much cash your business has on hand at a given moment in time. Importantly, it shows specifically where your spent cash has gone, and where your incoming cash is coming from.

A cash flow statement includes 3 types of cash-related transactions:

- Operating activities
- Investing activities
- Finance activities



	Year 1	Year 2
CASH FROM OPERATIONS		
Cash from sales	\$500,000	\$600,000
Cash spent on inventory	-\$150,000	-\$170,000
Cash spent on payroll	-\$175,000	-\$175,000
Cash spent on operating expenses	-\$50,000	-\$60,000
Net cash from operations	\$125,000	\$195,000
CASH FROM INVESTING		
Sale of vehicles, equipment or other assets	\$20,000	\$0
Sale of property	\$0	\$100,000
Purchase of vehicles, equipment or other assets	-\$50,000	-\$80,000
Purchase of property	\$0	\$0
Net cash from investing	-\$30,000	\$20,000
CASH FROM FINANCING		
Overdraft	-\$20,000	\$10,000
Repayment of loans	-\$20,000	-\$80,000
Owners contribution	\$15,000	\$0
Owners drawings	-\$20,000	-\$70,000
Net cash from financing	-\$45,000	-\$140,000
NET CASH MOVEMENT	\$50,000	\$75,000
Opening balance	\$10,000	\$60,000
Net cash movement	\$50,000	\$75,000
Closing balance	\$60,000	\$135,000



Cash from operations:

This is the net cash generated by the business after paying all expenses incurred, including the cost of all goods sold.

In our example, in Year 2 cash from operations is positive \$195,000.



Cash from investing

This is the cash that is spent on acquiring assets. Conversely, if a business sold an asset it would generate a positive cash impact.

In our example, in Year 2 the business has generated \$20,000 from assets.



Cash from financing

This is the cash generated from changes to business borrowings and capital investment. A negative impact here reflects a reduction in debt, while a positive change shows an increase in debt.

In Year 2 this business spent \$80,000 to reduce its debt and \$70,000 in drawings to the owner.

The net cash movement in Year 2 is positive \$75,000.