

Cash flow

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What is a cash flow analysis?

Analysis of a company's cash flow, together with other data in a company's financial reporting, is an important basis for assessing the company's ability to generate the cash needed to run the company's activities.

The data on cash flow improves the ability to compare current operations in various businesses where cash flow is not affected by the difference in accounting policies.

Cash flow analysis is a compilation of a company's cash receipts and payments for a certain period.

The cash flow analysis is divided into three different categories.

- Cash flow from operating activities.
- Cash flow from investment activities.
- Cash flow from financing operations.

Cash flow from operating activities: Cash received or expended as a result of the company's core business activities.

Cash flow from investment activities: Cash received or expended through investments or acquisitions.

Cash flow from financing operations: Cash received or expended as a result of financial activities like taking of interest-bearing liabilities, repayment of interest-bearing liabilities and dividends.

It is important to separate the total cash flow into these three different categories when you compare cash flow at two different companies.

In our example we will compare company Alpha (A) with company Beta (B).

Company A:

Year 1: cash flow of +2 million (m).

Year 2: cash flow of 2.2m.

Year 3: cash flow of 2.4m.

Company B:

Year 1: cash flow of 3.0m.

Year 2: cash flow of 3.2m.

Year 3: cash flow of 3.4m.

If we only look at the total cash flow, company B has a higher total cash flow and looks like a better company to invest in. Let us now separate the total cash flow into our three categories:

- Cash flow from operating activities. (CO)
- Cash flow from investment activities. (CI)
- Cash flow from financing operations. (CF)

Company A:

Year 1: CO +5m, CI -4m, CF +1m, total +2m.

Year 2: CO +5.2m, CI -4m, CF +1m, total +2.2m..

Year 3: CO +5.4m, CI -4m, CF +1m, total +2.4m..

Company B:

Year 1: CO +2m, CI -0m, CF +1m, total +3m.

Year 2: CO +2.2m, CI -0m, CF +1m, total +3.2m.

Year 3: CO +2.4m, CI -0m, CF +1m, total +3.4m.

Now it is evident that company A earns more money from its core business compared with company B and that company A has invested 12m, which if they have made wise investments will result in higher CO upcoming years.

Now we will take an actual real-world example to see how to put together a cash flow analysis. We will look at the cash flow analysis for the Akelius group for the period between the January 1st, 2006 until the end of June, 2007.

Where can we find the information we need to establish cash flow analyses?

Most of the information can be found in the company's balance sheet and income statement. In some cases you need to look at the notes to obtain the requisite figures for cash flow analyses. Try tracking cash flow analysis figures with the balance sheet and income statement of the Akelius group (the financial report is on their homepage: www.akelius.se).

Cash flow analyses - Group	2006/07	2005
Current operations		
Operating surplus	1,478,787	968 505
Central administration expenses	-28 098	-15,696
Interest subsidy	5,528	3,112
Interest income and similar profit/loss items	15,335	5,597
Interest expense and similar profit/loss items	-1,292,249	-717,249
Taxes paid	-85,596	-3,688
Cash flow from current administrative operations	93,707	240,581
Difference between paid and expensed		
Operating and interest charges	-47,064	-5,558
Cash flow before working capital changes	46,643	235,023
Increase (-) / decrease (+) in stock	290	-127
Increase (-) / decrease (+) in receivables	-218,192	-30,226
Increase (+) / decrease (-) of liabilities	-6,236	12,904
Cash flow from operating activities	-177,495	217,574
Investments in tangible assets	-5,919,968	-2,904,591
Sale of tangible assets	4,313,271	1,961,340
Increases in financial assets	-233,385	-14,947
Cash flow from investment activities	-1,840,082	-958,198
Interest-bearing debts	62,306,749	16,953,262
Amortisation of interest-bearing debts	-59,991,851	-16,177,632
Dividends paid	-400,000	-
Cash flow from financing	1,914,898	775,630

operations

Changes in cash and bank deposits	-102,679	35,006
Cash and bank deposits at the start of the year	131,795	96,789
Cash and bank deposits at the end of the year	29,116	131,795