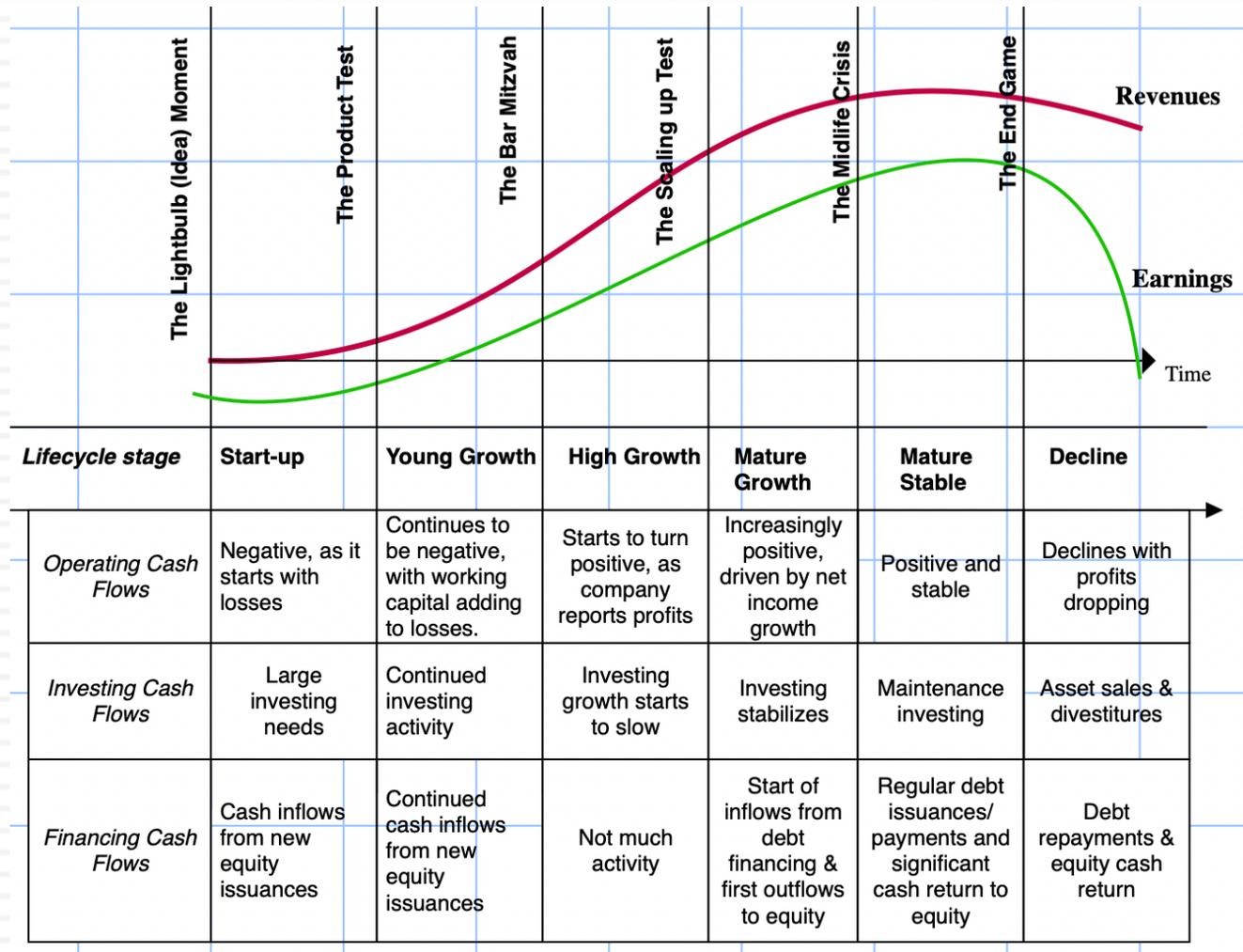


SESSION 4A: CASH FLOW STATEMENT COMPARISONS

Accounting for Finance

Cash Flows: A Life Cycle Perspective



A Young Company: Peloton's Cash Flow Statement (2019) in its Prospectus

	Fiscal Year Ended June 30,		
	2017	2018	2019
Cash Flows from Operating Activities:			
Net loss	\$ (71.1)	\$ (47.9)	\$ (195.6)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	3.7	6.6	21.7
Stock-based compensation expense	10.3	8.5	89.5
Impairment of long-lived assets	0.2	0.7	0.3
Amortization of debt issuance costs	0.1	0.3	0.3
Amortization of (discount) on marketable securities	—	—	(2.2)
Changes in operating assets and liabilities:			
Accounts receivable	(3.6)	(4.1)	(9.1)
Inventories	(5.0)	(9.6)	(111.3)
Prepaid expenses and other current assets	(1.0)	(12.1)	(30.3)
Other assets	(1.1)	1.4	(5.5)
Accounts payable and accrued expenses	22.1	41.0	117.3
Customer deposits and deferred revenue	19.0	63.0	2.2
Other liabilities	7.0	1.0	12.0
Net cash (used in) provided by operating activities	(18.6)	49.7	(108.6)
Cash Flows from Investing Activities:			
Purchases of marketable securities	—	—	(249.8)
Maturities of marketable securities	—	—	36.0
Cash paid for cost method investment	—	—	(0.6)
Purchases of property and equipment	(10.2)	(28.0)	(83.0)
Acquisition of business, net of cash acquired	—	(28.7)	(0.1)
Net cash used in investing activities	(10.2)	(56.7)	(297.5)
Cash Flows from Financing Activities:			
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	315.6	—	539.1
Repurchase of common and redeemable convertible preferred stock, including issuance costs	(170.0)	—	(130.3)
Proceeds from borrowings under credit facility	10.5	—	—
Debt repayments	(13.0)	(3.1)	—
Debt issuance costs	(0.2)	(1.2)	(0.9)
Proceeds from exercise of stock options	0.7	7.4	9.3
Net cash provided by financing activities	143.6	3.1	417.2
Effect of exchange rate changes	—	—	0.2
Net change in cash	114.8	(3.9)	11.3
Cash, cash equivalents, and restricted cash — Beginning of period	40.7	155.5	151.6
Cash, cash equivalents, and restricted cash — End of period	\$ 155.5	\$ 151.6	\$ 163.0
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	\$ 0.2	\$ 0.3	\$ 1.1
Supplemental Disclosures of Non-Cash Investing and Financing Information:			
Property and equipment accrued but unpaid	\$ 0.4	\$ 4.3	\$ 12.6
Building — build-to-suit asset	\$ —	\$ —	\$ 147.1
Stock-based compensation expense capitalized for software development costs	\$ —	\$ 0.3	\$ 0.8

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A Growth Company: Netflix's Cash Flow Statement (2020)

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	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 1,866,916	\$ 1,211,242	\$ 558,929
Adjustments to reconcile net income to net cash used in operating activities:			
Additions to streaming content assets	(13,916,683)	(13,043,437)	(9,805,763)
Change in streaming content liabilities	(694,011)	999,880	900,006
Amortization of streaming content assets	9,216,247	7,532,088	6,197,817
Depreciation and amortization of property, equipment and intangibles	103,579	83,157	71,911
Stock-based compensation expense	405,376	320,657	182,209
Other non-cash items	228,230	81,640	117,864
Foreign currency remeasurement loss (gain) on long-term debt	(45,576)	(73,953)	140,790
Deferred taxes	(94,443)	(85,520)	(208,688)
Other current assets	(252,113)	(200,192)	(234,090)
Accounts payable	96,063	199,198	74,559
Accrued expenses and other liabilities	157,778	150,422	114,337
Deferred revenue	163,846	142,277	177,974
Other non-current assets and liabilities	(122,531)	2,062	(73,803)
	(2,887,322)	(2,680,479)	(1,785,948)
Cash flows from investing activities:			
Purchases of property and equipment	(253,035)	(173,946)	(173,302)
Change in other assets	(134,029)	(165,174)	(60,409)
Purchases of short-term investments	—	—	(74,819)
Proceeds from sale of short-term investments	—	—	320,154
Proceeds from maturities of short-term investments	—	—	22,705
Net cash provided by (used in) investing activities	(387,064)	(339,120)	34,329
Other financing activities:			
Proceeds from issuance of debt	4,469,306	3,961,852	3,020,510
Debt issuance costs	(36,134)	(35,871)	(32,153)
Proceeds from issuance of common stock	72,490	124,502	88,378
Other financing activities	—	(1,990)	233
Net cash provided by financing activities	4,505,662	4,048,527	3,076,990
Effect of exchange rate changes on cash, cash equivalents and restricted cash	469	(39,682)	29,848
Net increase in cash, cash equivalents and restricted cash	1,231,745	989,246	1,355,219
Cash, cash equivalents and restricted cash, beginning of year	3,812,041	2,822,795	1,467,576
Cash, cash equivalents and restricted cash, end of year	\$ 5,043,786	\$ 3,812,041	\$ 2,822,795
Supplemental disclosure:			
Income taxes paid	\$ 400,658	\$ 131,069	\$ 113,591
Interest paid	599,132	375,831	213,313

A Mature Company: Coca Cola's Cash Flow Statement

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Year Ended December 31,	2019	2018	2017
Operating Activities			
Consolidated net income	\$ 8,985	\$ 6,476	\$ 1,283
Depreciation and amortization	1,365	1,086	1,260
Stock-based compensation expense	201	225	219
Deferred income taxes	(280)	(415)	(1,252)
Equity (income) loss — net of dividends	(421)	(457)	(628)
Foreign currency adjustments	91	(50)	292
Significant (gains) losses — net	(467)	743	1,459
Other operating charges	127	558	1,218
Other items	504	699	(252)
Net change in operating assets and liabilities	366	(1,240)	3,442
Net Cash Provided by Operating Activities	10,471	7,627	7,041
Investing Activities			
Purchases of investments	(4,704)	(7,789)	(17,296)
Proceeds from disposals of investments	6,973	14,977	16,694
Acquisitions of businesses, equity method investments and nonmarketable securities	(5,542)	(1,263)	(3,809)
Proceeds from disposals of businesses, equity method investments and nonmarketable securities	429	1,362	3,821
Purchases of property, plant and equipment	(2,054)	(1,548)	(1,750)
Proceeds from disposals of property, plant and equipment	978	248	108
Other investing activities	(56)	(60)	(80)
Net Cash Provided by (Used in) Investing Activities	(3,976)	5,927	(2,312)
Financing Activities			
Issuances of debt	23,009	27,605	29,926
Payments of debt	(24,850)	(30,600)	(28,871)
Purchases of stock for treasury	(1,103)	(1,912)	(3,682)
Dividends	(6,845)	(6,644)	(6,320)
Other financing activities	(227)	(272)	(95)
Net Cash Provided by (Used in) Financing Activities	(9,004)	(10,347)	(7,447)
Effect of Exchange Rate Changes on Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents	(72)	(262)	241
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents			
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents during the year	(2,581)	2,945	(2,477)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	9,318	6,373	8,850
Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents at End of Year	6,737	9,318	6,373
Less: Restricted cash and restricted cash equivalents at end of year	257	241	271
Cash and Cash Equivalents at End of Year	\$ 6,480	\$ 9,077	\$ 6,102

An Aging Company: Toyota

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	(Yen in millions)	
	FY2019 (For the year ended March 31, 2019)	FY2020 (For the year ended March 31, 2020)
Cash flows from operating activities:		
Net income	1,985,587	2,142,329
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,792,375	1,605,383
Provision (reversal) for doubtful accounts and credit losses	80,065	142,982
Pension and severance costs, less payments	31,645	15,699
Losses on disposal of fixed assets	35,902	56,913
Unrealized losses (gains) on securities	339,472	20,082
Deferred income taxes	(86,594)	192,147
Equity in earnings of affiliated companies	(300,000)	(271,132)
Changes in operating assets and liabilities, and other	(51,789)	(313,740)
Net cash provided by operating activities	3,766,597	3,590,643
Cash flows from investing activities:		
Additions to finance receivables	(15,884,610)	(16,896,588)
Collection of and proceeds from sales of finance receivables	14,859,103	15,667,462
Additions to fixed assets excluding equipment leased to others	(1,452,725)	(1,407,832)
Additions to equipment leased to others	(2,286,162)	(2,187,299)
Proceeds from sales of fixed assets excluding equipment leased to others	65,437	48,751
Proceeds from sales of equipment leased to others	1,385,074	1,391,215
Purchases of marketable securities and security investments	(1,840,355)	(2,413,087)
Proceeds from sales of and maturity of marketable securities and security investments	2,698,798	2,370,406
Payment for additional investments in affiliated companies, net of cash acquired	5,010	(14,763)
Changes in investments and other assets, and other	(246,811)	290,874
Net cash used in investing activities	(2,697,241)	(3,150,861)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	5,000,921	5,691,499
Payments of long-term debt	(4,442,232)	(4,424,923)
Dividends paid to Toyota Motor Corporation class shareholders	(8,690)	(11,186)
Dividends paid to Toyota Motor Corporation common shareholders	(636,116)	(618,801)
Dividends paid to noncontrolling interests	(69,367)	(54,945)
Net cash provided by (used in) financing activities	(540,839)	397,138
Effect of exchange rate changes on cash and cash equivalents and restricted cash and cash equivalents	(41,641)	(131,245)
Net increase in cash and cash equivalents and restricted cash and cash equivalents	486,876	705,675
Cash and cash equivalents and restricted cash and cash equivalents at beginning of year	3,219,639	3,706,515
Cash and cash equivalents and restricted cash and cash equivalents at end of year	3,706,515	4,412,190

Sector and Industry Differences

- The statement of cash flows is perhaps the most direct of financial statements, since it is based upon cash flows in and cash flows out. It is thus the one statement that accounting game playing affects the least.
- While the objective of the statement might be explaining why the cash balance changes, it is the repository for all of the items needed to estimate cash flows.
- While it is not uncommon for income statements and cash flows to send divergent messages about a firm's financial well being, consistent differences between the two can be a indicator of accounting problems.

A Commodity Company: Total in 2019

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TOTAL

For the year ended December 31, (M\$)

CASH FLOW FROM OPERATING ACTIVITIES

		2019	2018	2017
Depreciation, depletion, amortization and impairment	(Note 5.3)	16,401	14,584	16,611
Non-current liabilities, valuation allowances, and deferred taxes	(Note 5.3)	(59)	(597)	(594)
(Gains) losses on disposals of assets		(614)	(930)	(2,598)
Undistributed affiliates' equity earnings		(1,083)	(826)	42
(Increase) decrease in working capital	(Note 5.5)	(1,718)	769	827
Other changes, net		319	443	(478)

CASH FLOW FROM OPERATING ACTIVITIES

24,685 24,703 22,319

CASH FLOW USED IN INVESTING ACTIVITIES

Intangible assets and property, plant and equipment additions	(Note 7)	(11,810)	(17,080)	(13,767)
Acquisitions of subsidiaries, net of cash acquired		(4,748)	(3,379)	(800)
Investments in equity affiliates and other securities		(1,618)	(1,108)	(1,368)
Increase in non-current loans		(1,061)	(618)	(961)

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Proceeds from disposals of intangible assets and property, plant and equipment		527	3,716	1,036
Proceeds from disposals of subsidiaries, net of cash sold		158	12	2,909
Proceeds from disposals of non-current investments		349	1,444	294

Total divestments

2,060 7,239 5,264

CASH FLOW USED IN INVESTING ACTIVITIES

(17,177) (14,946) (11,632)

CASH FLOW FROM FINANCING ACTIVITIES

Issuance (repayment) of shares:				
– Parent company shareholders		452	498	519
– Treasury shares		(2,810)	(4,328)	–
Dividends paid:				
– Parent company shareholders		(6,641)	(4,913)	(2,643)
– Non-controlling interests		(115)	(97)	(141)
Net issuance of perpetual subordinated notes	(Note 9)	–	–	–
Payments on perpetual subordinated notes	(Note 9)	(371)	(325)	(276)
Other transactions with non-controlling interests		10	(622)	(4)
Net issuance (repayment) of non-current debt	(Note 15)	8,131	649	2,277
Increase (decrease) in current borrowings		(5,829)	(3,990)	(7,175)
Increase (decrease) in current financial assets and liabilities		(536)	(797)	1,903

CASH FLOW FROM / (USED IN) FINANCING ACTIVITIES

(7,709) (13,925) (5,540)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

(201) (4,168) 5,147

Effect of exchange rates		(354)	(1,110)	3,441
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Cash and cash equivalents at the beginning of the period		27,907	33,185	24,597
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CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	(Note 15)	27,352	27,907	33,185
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A Financial Service Company: HSBC in 2019

Consolidated statement of cash flows for the year ended 31 December

	2019 \$m	2018 \$m	2017 \$m
Profit before tax	13,347	19,890	17,167
Adjustments for non-cash items:			
Depreciation, amortisation and impairment ¹	10,519	1,933	1,862
Net gain from investing activities	(399)	(126)	(1,152)
Share of profits in associates and joint ventures	(2,354)	(2,536)	(2,375)
Gain on disposal of subsidiaries, businesses, associates and joint ventures	(929)	—	(79)
Change in expected credit losses gross of recoveries and other credit impairment charges	3,012	2,280	N/A
Loan impairment losses gross of recoveries and other credit risk provisions	N/A	N/A	2,603
Provisions including pensions	2,423	1,944	917
Share-based payment expense	478	450	500
	(2,297)	(1,303)	(381)
	(3,742)	4,930	(20,757)
Change in net trading securities and derivatives	(18,910)	20,855	(13,615)
Change in loans and advances to banks and customers	(53,760)	(44,071)	(108,984)
Change in reverse repurchase agreements – non-trading	(7,390)	(25,399)	(37,281)
Change in financial assets designated and otherwise mandatorily measured at fair value	(2,308)	(1,515)	(5,303)
Change in other assets	(21,863)	6,766	(6,570)
Change in deposits by banks and customer accounts	79,163	(5,745)	102,457
Change in repurchase agreements – non-trading	(25,540)	35,882	41,044
Change in debt securities in issue	19,268	18,806	(1,369)
Change in financial liabilities designated at fair value	20,068	4,500	8,508
Change in other liabilities	23,124	(2,187)	13,514
Dividends received from associates	633	910	740
Contributions paid to defined benefit plans	(533)	(332)	(685)
Tax paid	(2,267)	(3,417)	(3,175)
Net cash from operating activities	29,743	32,515	(12,414)
	(445,907)	(399,458)	(357,264)
	413,186	386,056	418,352
Net cash flows from the purchase and sale of property, plant and equipment	(1,343)	(1,196)	(1,167)
Net cash flows from purchase/(disposal) of customer and loan portfolios	1,118	(204)	6,756
Net investment in intangible assets	(2,289)	(1,848)	(1,285)
Net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	(83)	4	165
Net cash from investing activities	(35,318)	(16,646)	65,557
Issue of ordinary share capital and other equity instruments	—	6,001	5,196
Cancellation of shares	(1,000)	(1,998)	(3,000)
Net sales/(purchases) of own shares for market-making and investment purposes	141	133	(67)
Redemption of preference shares and other equity instruments	—	(6,078)	—
Subordinated loan capital repaid ³	(4,210)	(4,077)	(3,574)
Dividends paid to shareholders of the parent company and non-controlling interests	(9,773)	(10,762)	(9,005)
Net cash from financing activities	(14,842)	(16,781)	(10,450)
Net increase/(decrease) in cash and cash equivalents	(20,417)	(912)	42,693
Cash and cash equivalents at 1 Jan ⁴	312,911	323,718	263,324
Exchange differences in respect of cash and cash equivalents	1,248	(9,895)	17,701
Cash and cash equivalents at 31 Dec^{4, 5}	293,742	312,911	323,718
Cash and cash equivalents comprise:			
– cash and balances at central banks	154,099	162,843	180,624
– items in the course of collection from other banks	4,956	5,787	6,628
– loans and advances to banks of one month or less	41,626	39,460	61,973
– reverse repurchase agreements with banks of one month or less	65,370	74,702	58,850
– treasury bills, other bills and certificates of deposit less than three months	20,132	21,685	11,593
– cash collateral and net settlement accounts	12,376	14,075	10,900
– less: items in the course of transmission to other banks	(4,817)	(5,641)	(6,850)
Cash and cash equivalents at 31 Dec^{4, 5}	293,742	312,911	323,718

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A Pharmaceutical Firm: Dr. Reddy's Lab in 2019

STATEMENT OF CASH FLOWS

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

Particulars	For the year ended 31 March 2020	For the year ended 31 March 2019
Cash flows from/(used in) operating activities		
Profit before tax	27,758	17,007
Adjustments:		
Depreciation and amortisation expense	7,892	7,806
Impairment loss on other intangible assets	-	24
Equity settled share-based payment expense	521	389
Fair value gain on financial instruments at fair value through profit or loss	(821)	(669)
Foreign exchange loss / (gain), net	(229)	2,455
(Profit)/Loss on sale/disposal of property, plant and equipment and other intangible assets, net	135	(400)
Interest income	(856)	(812)
Finance costs	478	568
Allowances for credit losses, net	93	212
Allowances for doubtful advances, net	2	(351)
Dividend from subsidiary, joint ventures and other entities	(397)	-
Provision/(reversal of provision) relating to non-current investments	-	359
Changes in operating assets and liabilities:		
Trade receivables	(10,927)	4,547
Inventories	(1,748)	(1,588)
Trade payables	368	(201)
Other assets and other liabilities, net	892	663
Cash generated from operations	23,161	30,009
Income taxes paid, net	(4,769)	(2,388)
Net cash from operating activities	18,392	27,621
Cash flows from/(used in) investing activities		
Proceeds from sale of property, plant and equipment	58	879
Expenditures on property, plant and equipment	(4,262)	(5,775)
Expenditures on other intangible assets	(476)	(753)
Purchase of investments	(122,726)	(77,267)
Proceeds from sale of investments	109,186	74,786
Loans and advances repaid by subsidiaries	343	1,800
Dividend income received	397	-
Interest income received	588	821
Net cash used in investing activities	(16,892)	(5,509)
Proceeds from issuance of equity shares (including treasury shares)	4	-*
Proceeds from/(repayment of) short-term loans and borrowings, net (Refer note 2.9 (d))	4,630	(17,049)
Repayment of long-term loans and borrowings, net (Refer note 2.9 (d))	(1,805)	-
Payment of principal portion of lease liabilities (Refer note 2.9 (d))	(155)	-
Dividends paid (including corporate dividend tax)	(3,914)	(4,002)
Purchases of treasury shares	(474)	(535)
Interest paid	(527)	(645)
Net cash used in financing activities	(2,241)	(22,231)
Net increase / (decrease) in cash and cash equivalents	(741)	(119)
Effect of exchange rate changes on cash and cash equivalents	-	44
Cash and cash equivalents at the beginning of the year (Refer note 2.5 E)	1,132	1,207
Cash and cash equivalents at the end of the year (Refer note 2.5 E)	391	1,132

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Bottom Line

- The statement of cash flows looks at cash flows through the eyes of the equity investors in a business.
 - ▣ Thus, if you are trying to compute cash flows to equity investors, all of the information you will need should be on the statement.
 - ▣ You should also be able to see what equity investors received as cash flows.
- If your objective is to estimate cash flows, prior to debt payments, you can start with the statement of cash flows but you have to trace interest expenses (netted out to get to net income) and add them back.