



# Navigating Accounting<sup>®</sup>

## Recent Cash Flow Activities: How Do I Use the Numbers?

### Industry Comparisons 01

Comparing and contrasting recent cash flows across industries and time.

### Search



This exercise requires you to search for information.

### Compute



This exercise requires you to compute information.

### Usage



This exercise helps you learn how accounting reports are used by investors, creditors, and other stakeholders.

### Judgement



This exercise helps you learn how to use judgement.

## Part 1 Question

- Fill in the blank boxes (with red borders) in the data template in the Excel file for this exercise following the guidance below.

## Part 1 Guidance

- If you have not already done so, go to [NavigatingAccounting.com](http://NavigatingAccounting.com) and then click your way to the materials for this exercise:
  - Click “Analyzing Financial Statements Across Time and Industries”
  - Industry Comparisons Exercises: Series 01
  - Click “Exercise 3: Analyzing Recent Cash Flow Activities”
- Download the *Excerpt: Analyzing Recent Cash Flows on Statement of Cash Flows*, Excel and Word files.
- Search the internet for information needed to fill in the blank boxes:
  - You will find most of this information on the companies’ cash flow statements. These are reported in their annual reports or extended versions of these reports they submit to the Securities and Exchange Commission (SEC) called Form 10-Ks. To learn how to locate and download these documents and find the balance sheets therein, watch *Searching and Locating Annual Reports 1*, which is included in the Videos section of the materials for this exercise.
  - You will need to know some very basic Excel skills to complete the data template. If you are not familiar with Excel, watch *Using Excel 1: Basics*, which is included in the Videos section of the materials for this exercise.

## Part 2 Question

- Compare and contrast the extent to which net cash from operations exceeded the cash required to maintain and grow the business and meet debt obligations for the template companies during the five years in the template, ignoring fiscal-year-end differences.

Over the long run, companies perform for shareholders to the extent net cash from operations exceeds the cash outflows required to maintain and grow the business and meet debt obligations. By contrast, when companies do not generate sufficient net cash from operations over sustained periods to meet these objectives, shareholders are affected adversely either because the companies are forced to rely on increasingly costly external financing or, in the limit, face financial distress (declare bankruptcy or go out of business).

## Part 2 Guidance

- Limit your analyses of the companies’ cash flows to:
  - The “Analysis of Recent Cash Flow Activity” section of the template. Also see *Excerpt: Analyzing Recent Cash Flows on Statement of Cash Flows*.
  - Your understanding of the companies’ businesses and the ways they were likely impacted by the financial crisis during this period. Your understanding of the companies’ businesses should be informed by related excerpts from the Management Discussion and Analysis (MD&A) section of the 10-K.
- **Organize your responses with the following titles and guidance:**
  - (a) Net cash from operations before interest and taxes: Analysis and Conclusions. Explain patterns in this measure over time for individual template companies and differences in these patterns across companies in terms of your understand-

ing of the companies' businesses and the ways they were likely affected by the financial crisis.

- (b) Cash surplus (shortfall) after maintaining current capacity and paying debt and taxes: Analysis and Conclusions. Compare and contrast patterns in this measure over time for individual companies and differences in these patterns across companies to the measures and patterns in part (a) in terms of your understanding of the companies' businesses and the ways they were likely affected by the financial crisis. Do not repeat analysis and conclusions from part(a), rather build on your analysis.

Note: Ideally, this measure would reflect short-term debt payments. However, companies do not report short-term debt payments separate from short-term borrowings. Instead, they report net short-term debt borrowings (payments). When the payments exceed the borrowings, we have combined the excess with the long-term debt payments (as indicated in this section of the template). When the borrowings exceed the payments, the excess is included with the long-term debt borrowings (further down the template under external financing, as discussed in part (d)).

- (c) Cash surplus (shortfall) before new financing and securities transactions: Analysis and Conclusions. Compare and contrast patterns in this measure over time for individual companies and differences in these patterns across companies to the measures and patterns in part (b) in terms of your understanding of the companies' businesses and the ways they were likely affected by the financial crisis. Again, do not repeat analysis and conclusions from earlier parts, rather build on your analysis.
- (d) New debt financing: Analysis and Conclusions. Compare and contrast borrowing patterns over time for individual companies and differences in these patterns across companies in terms of your understanding of the companies' businesses, the surpluses (shortfalls) in part (c), and the ways companies were likely affected by the financial crisis. Again, do not repeat analysis and conclusions from earlier parts, rather build on your analysis.

Note: Ideally, this measure would be analyzed using short-term debt borrowings. However, companies do not report short-term debt borrowings separate from short-term payments. Instead, they report net short-term debt borrowings (payments). When the payments exceed the borrowings, we have combined the excess with the long-term debt payments (in part (b) above). When the borrowings exceed the payments, the excess is included with the long-term debt borrowings (here in part (d)).