What is a statement of cash flows?

The statement of cash flows (also called the cash flows statement) is one of the primary financial statements an entity prepares. It reflects how cash moves in and out of an entity from cash inflows or receipts and cash outflows or payments. It ultimately reconciles the changes in the entity's cash balance from the beginning to the end of the reporting period. The statement of cash flows is organized into three main categories:

- **Cash from or used in operating activities:** activities or transactions generally related to the principal business operations of the entity
- **Cash from or used in investing activities:** activities that arise in connection with the purchase or sale of long-term assets or investments
- **Cash from or used in financing activities:** activities that directly affect the entity's owners or creditors due to the entity's need for financing

Did You Know?

There are two ways to prepare the statement of cash flows—the direct method and the indirect method. To calculate cash flows from operating activities:

- **The *direct method* shows items that directly affect cash flows, meaning actual cash receipts or cash expenditures.**
- **The *indirect method* starts with net income and adjusts for changes that did not affect cash (such as depreciation), and changes in current assets and current liabilities.**

Most domestic companies use accrual-based accounting, which more readily aligns with the **indirect method.** As a result, fewer companies—and generally only smaller ones—use the **direct method.**

The statement of cash flows shows how the entity generates and spends its cash. The beginning cash balance plus the net increase in cash (or minus the net decrease in cash) equals the ending cash balance.

Anatomy of a statement of cash flows

Operating Activities show how the entity generates or uses cash from its business activities, like manufacturing products or providing services.

Investing Activities show how the entity generates or uses cash from its investment activities, like sales or purchases of property, plant, and equipment, stocks and bonds, or a business unit.

Financing Activities show how the entity generates or uses cash from its funding sources, like selling or repurchasing stock, entering into or paying off a long-term loan, or paying dividends.

Cash flows from Operating Activities	
Net income	$435,000
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	$4,500
Changes in operating assets and liabilities	
Accounts receivable	($4,100)
Inventory	($23,400)
Prepaid expenses and other current assets	($2,200)
Accounts payable	$33,800
Accrued expenses and other current liabilities	$1,450
Net Cash Provided by Operating Activities	$445,050
Cash Flows from Investing Activities	
Purchases of property and equipment	($185,000)
Net Cash Used in Investing Activities	($185,000)
Cash Flows from Financing Activities	
Proceeds from revolving credit facility	$46,000
Payments on revolving credit facility	($12,000)
Proceeds from long-term debt	$120,000
Payments on long-term debt	($5,000)
Net Cash Provided by Financing Activities	$149,000
Net Increase (Decrease) in Cash	$409,050
Cash and Cash Equivalents	
Beginning of period	$392,000
End of period	$801,050

ENGAGE WITH US

smallbusiness@sec.gov

202.551.5407

www.sec.gov/oasb

#SECSmallBiz