

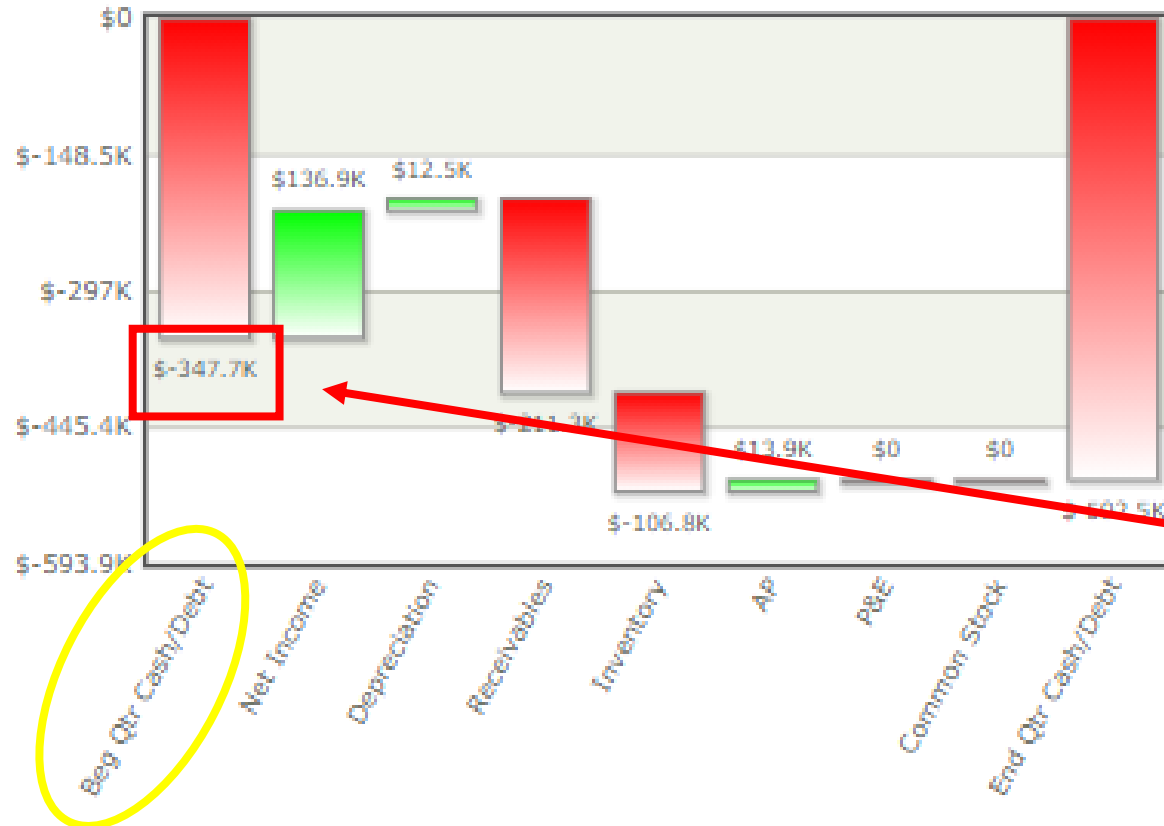
# How To Read the Cash Flow Walk Chart

Follow the Cash...

# Cash Flow Walk Chart

- The Cash Flow Walk chart is read differently than the Pre-Tax Net Income Chart. We are looking at **sources** and **uses** of cash on the Cash Flow Walk.
- The Cash Flow Walk shows cash inflows and outflows for the quarter – the first bar is ‘Beginning of Quarter Cash/Debt’, and the last bar is ‘End of Quarter Cash / Debt. We are ‘walking’ through the items in the quarter.
- A green bar at either end indicates that you have cash in the bank (look at ‘Cash’ on the Balance Sheet to compare). A red bar at either end indicates that you are using your Line of Credit (look at ‘Debt’ on the Balance Sheet to compare).
- Your goal is to explain *\*why\** an item ‘contributed to’ or ‘used’ cash.
- The Pre-Tax Net Income Chart shows favorable or unfavorable *variances to Plan*. Cash Flow walk shows *sources and uses of cash*: you are reconciling the sources and uses of cash in the quarter.

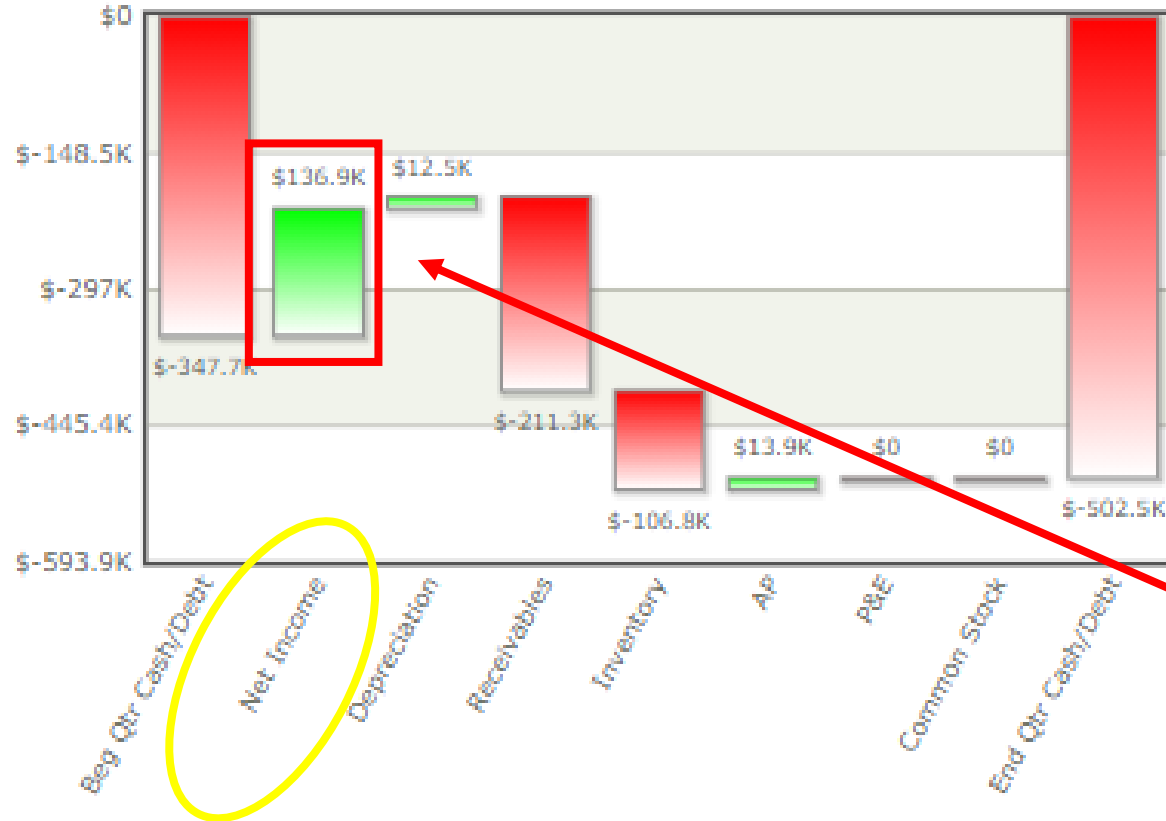
## Cash Flow Walk:



Balance Sheet [\$]	Q3'21A	Q4'21A
Total Assets	\$790,659.78	\$1,096,284.77
= Cash	\$0.00	\$0.00
+ Receivables	\$561,230.96	\$772,510.21
= Total Sales	\$1,671,105.00	\$2,188,480.00
x ACP [Days]	30.2	31.8
/ Total Days per Quarter	90	90
+ Raw Material	\$104,428.82	\$80,812.47
+ Finished Goods	\$0.00	\$130,462.10
+ Net PP&E	\$125,000.00	\$112,500.00
Total Liabilities & Equity	\$790,659.78	\$1,096,284.77
= Liabilities	\$434,763.04	\$603,523.74
= Payables	\$87,062.50	\$100,992.50
+ Debt	\$347,700.54	\$502,531.24
+ Equity	\$355,896.74	\$492,761.04
= Common Stock	\$455,000.00	\$455,000.00
+ Retained Earnings	(\$99,103.26)	\$37,761.04

Beginning of Quarter Cash / Debt reflects the cash you have in the bank, \*or\* the amount of debt you are using via Line of Credit. This number is your starting point for the most recent quarter. In this example, there is no cash; the company is being funded using debt. In reality, a company can have both cash on the Balance Sheet, and use debt.

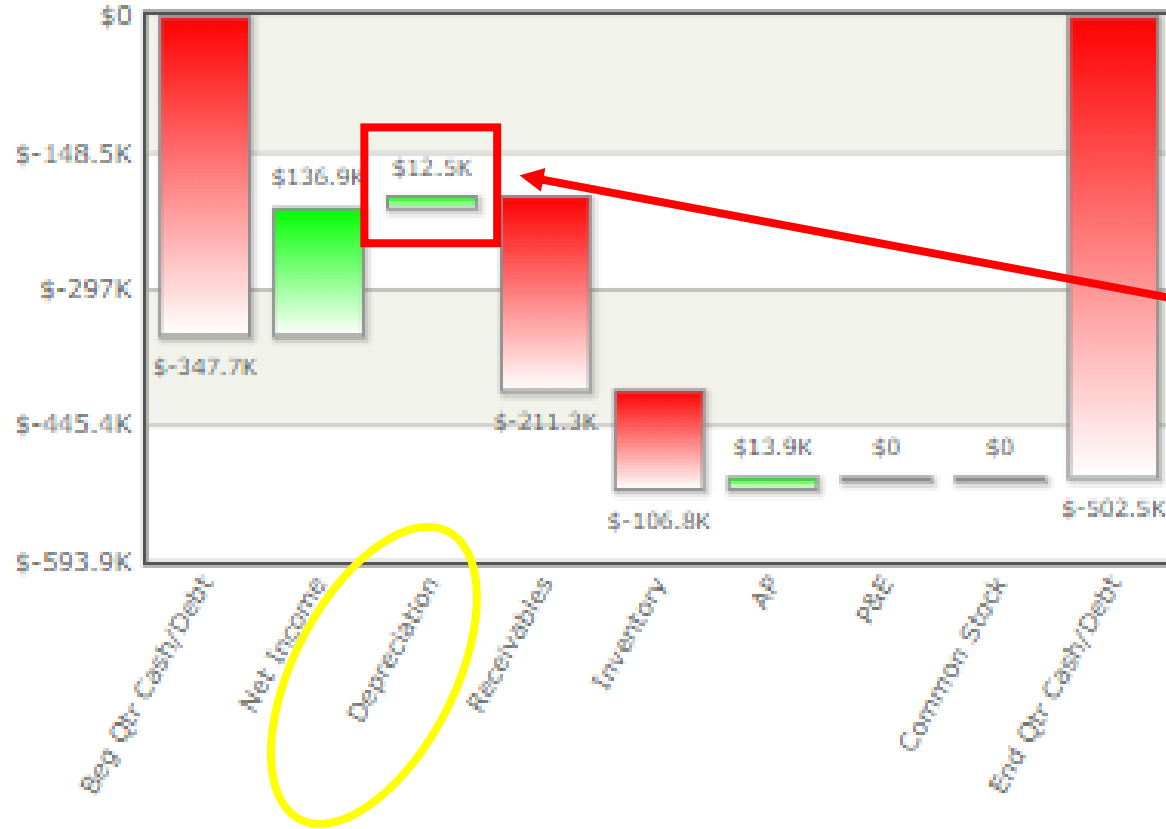
## Cash Flow Walk:



Profit & Loss [S]	Q4'21A
Total Sales	\$2,188,480.00
= Sales Inventory [Units]	3,908
x Selling Price per Unit	\$560.00
- Total COGS	\$653,648.55
= Materials	\$272,254.43
+ Labor	\$381,394.12
Gross Margin	\$1,534,831.45
- Total Base Costs	\$1,248,064.08
+ Research Funding	\$0.00
+ Development Funding	\$0.00
+ Marketing	\$333,000.00
+ Advertising	\$132,000.00
+ Quality Engineering	\$245,000.00
+ Lean Six Sigma Costs	\$188,000.00
+ Inventory Costs	\$16,901.97
+ Inventory Rework Costs	\$0.00
+ Equipment Rental	\$68,740.52
+ Building Lease and Utilities	\$183,921.59
+ Depreciation	\$12,500.00
+ Hiring/Layoff Costs	\$68,000.00
+ Other	\$0.00
Operating Margin (OM)	\$286,767.37
- Interest Expense	\$13,038.77
= Previous Quarter Debt	\$347,700.54
x Interest Rate	3.75%
Pre-Tax Net Income	\$273,728.60
- Taxes	\$136,864.30
= (OM - Interest Expense)	\$273,728.60
x Tax Rate	50.00%
Net Income	\$136,864.30

Net Income 'contributes to' cash flow here because the bar is green. A red bar means you had a net loss in the quarter.  
 \*What are the key drivers behind the Net Income in the quarter?\* (This last question relates to the Pre-Tax Net Income walk.)

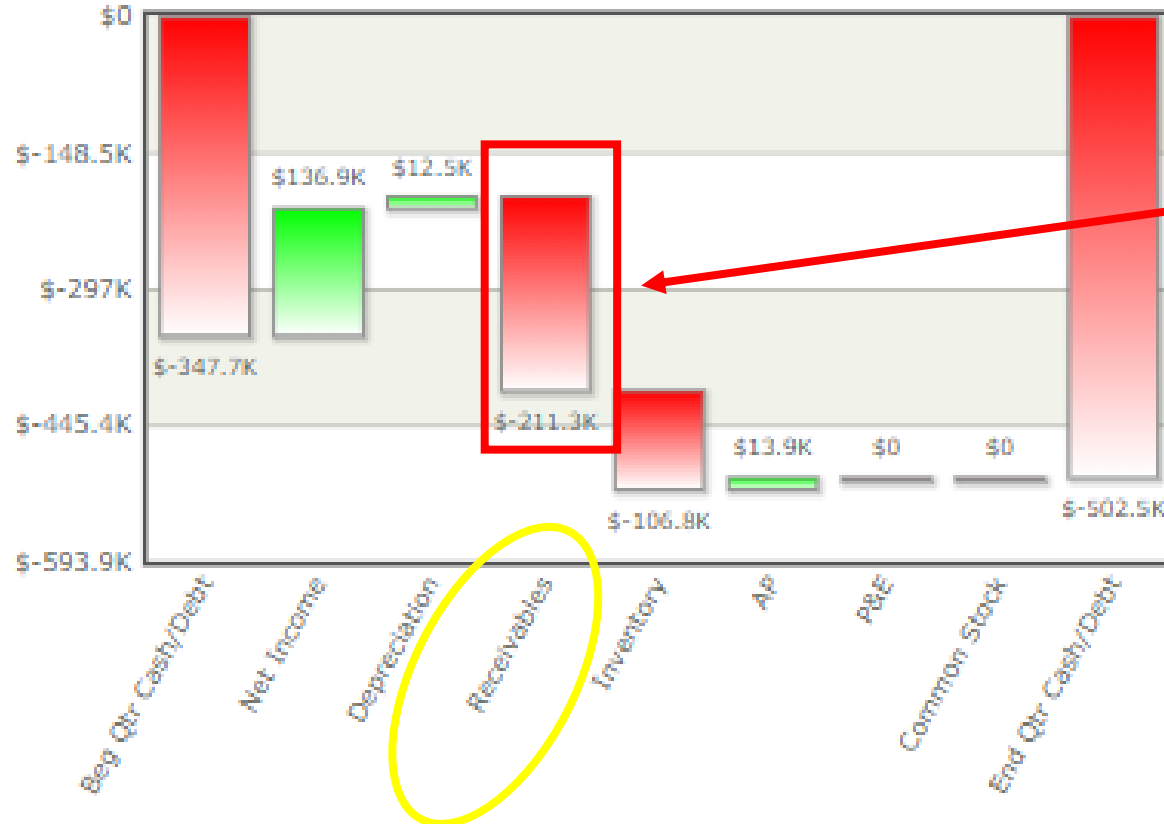
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Since Depreciation is a 'non-cash expense' – meaning that you do not 'pay' anyone depreciation; it is purely a bookkeeping entry – we add back depreciation because it is included in the calculation of Net Income. Depreciation contributes to cash flow. The amount in depreciation is the change in Net PP&E in the quarter (assuming we did not purchase anymore PP&E).

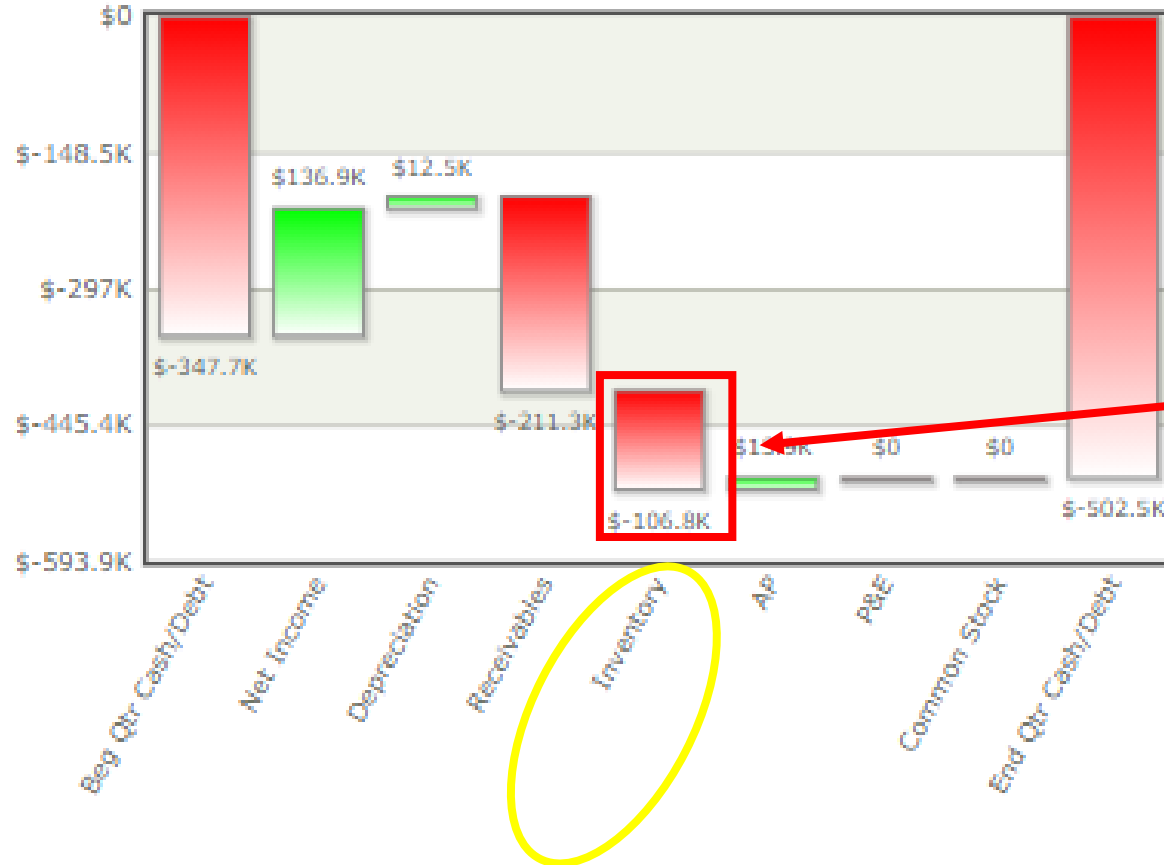
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An increase in Receivables on the Balance Sheet can happen for a few reasons: we had more sales (either from more units sold or because of a price increase), or we changed our terms to the customer. If Receivables on the Balance Sheet increased, that means our customer has the cash and we do not, so it is considered a 'use' of cash. A decrease of Receivables on the Balance Sheet would show as a green bar on the Cash Flow walk: it means we have the cash and is a 'source' of cash. The dollar amount on the Cash Flow walk is the difference between the quarters on the Balance Sheet. \*You will need to explain why Receivables was a source or a use of cash.\*

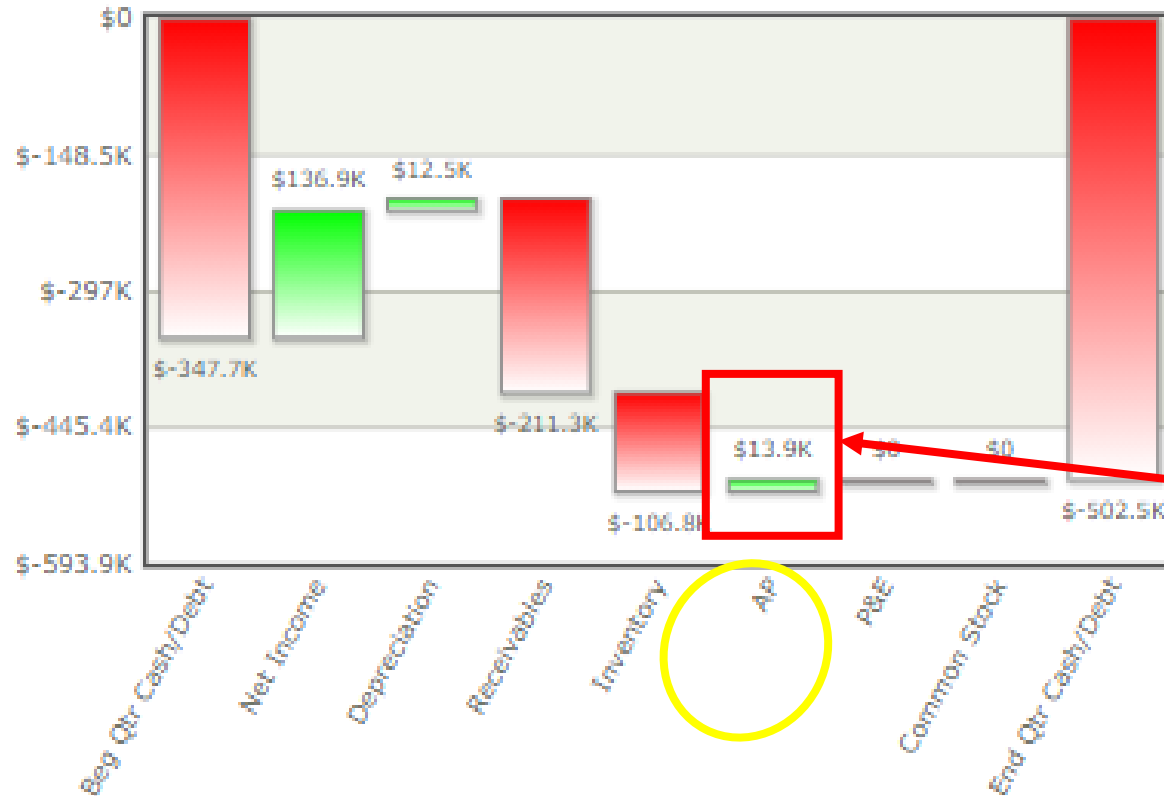
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Like Receivables, an increase in Inventory (in total) on the Balance Sheet means that the cash is tied up in Inventory, and we do not have the cash. An increase in Inventory on the Balance Sheet is shown in red, since it is considered a 'use' of cash. A decrease in cash on the Balance Sheet is considered a 'source' of cash. \*You will need to explain why inventory was a source or a use of cash.\*

## Cash Flow Walk:

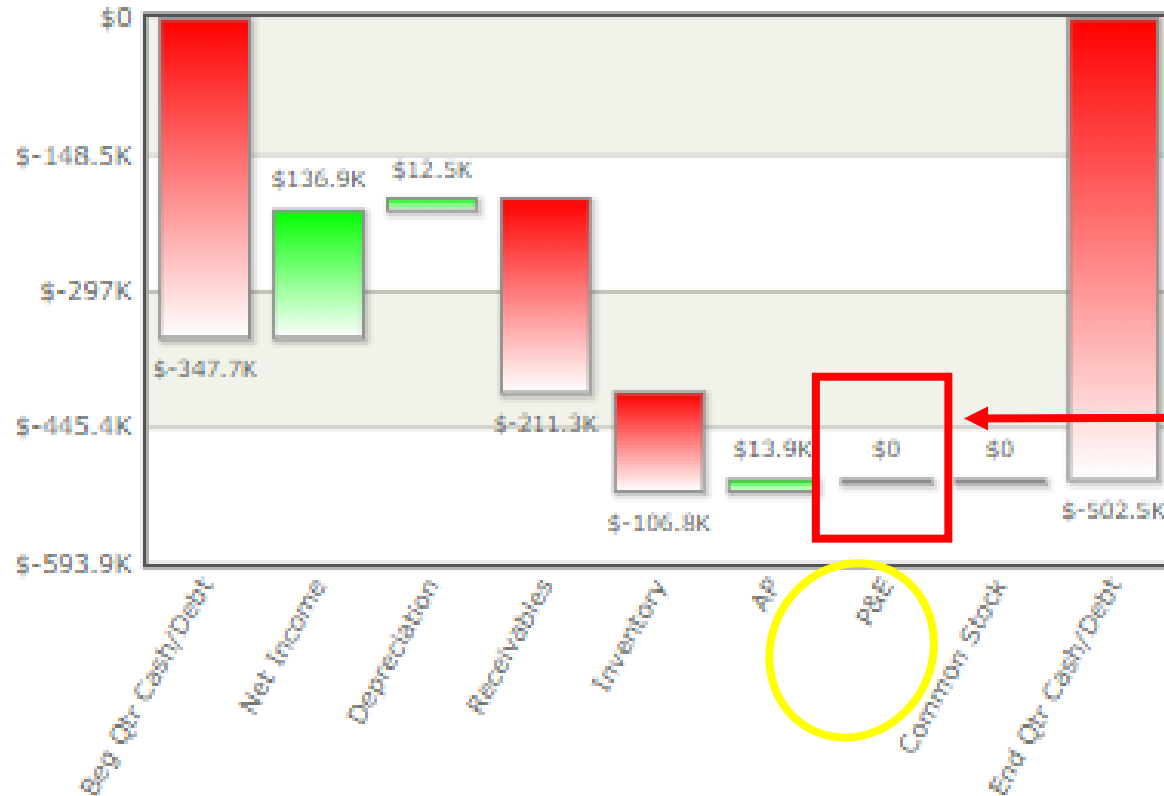


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Accounts Payable is the opposite of Accounts Receivable. Accounts Payable can increase because we purchased more Raw Materials, the price changed, or we changed our terms with our supplier. An increase in AP on the Balance Sheet is a green 'source' of cash, as we currently have the cash that we owe our supplier. A decrease in AP means we paid the supplier, and we no longer have the cash, so it is represented as a 'use' of cash, and a red bar. \*You will need to explain why AP was a source or a use of cash.\*



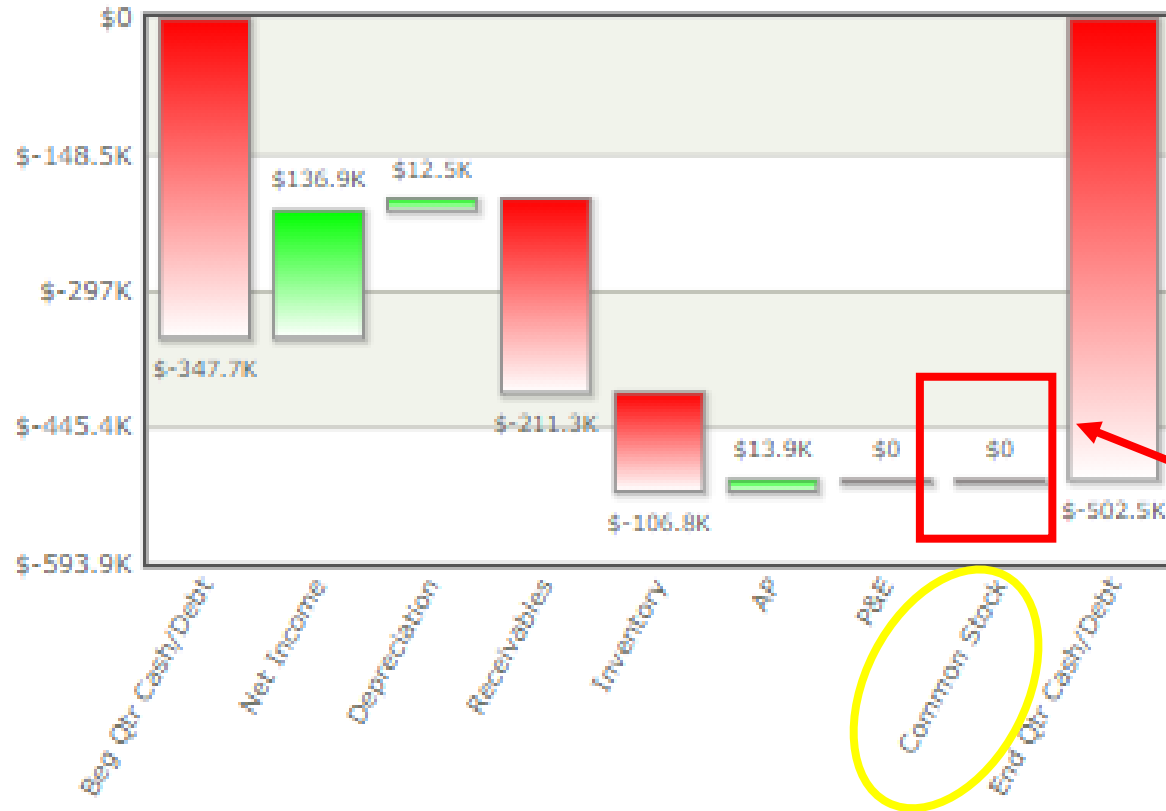
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The Plant & Equipment bar shows whether the company bought (use of cash – red bar) or sold (source of cash – green bar) heavy machinery, buildings, or other capital assets. Do not confuse 'P&E' with 'Net P&E' on the Balance Sheet: Net P&E includes the depreciation on the P&E.

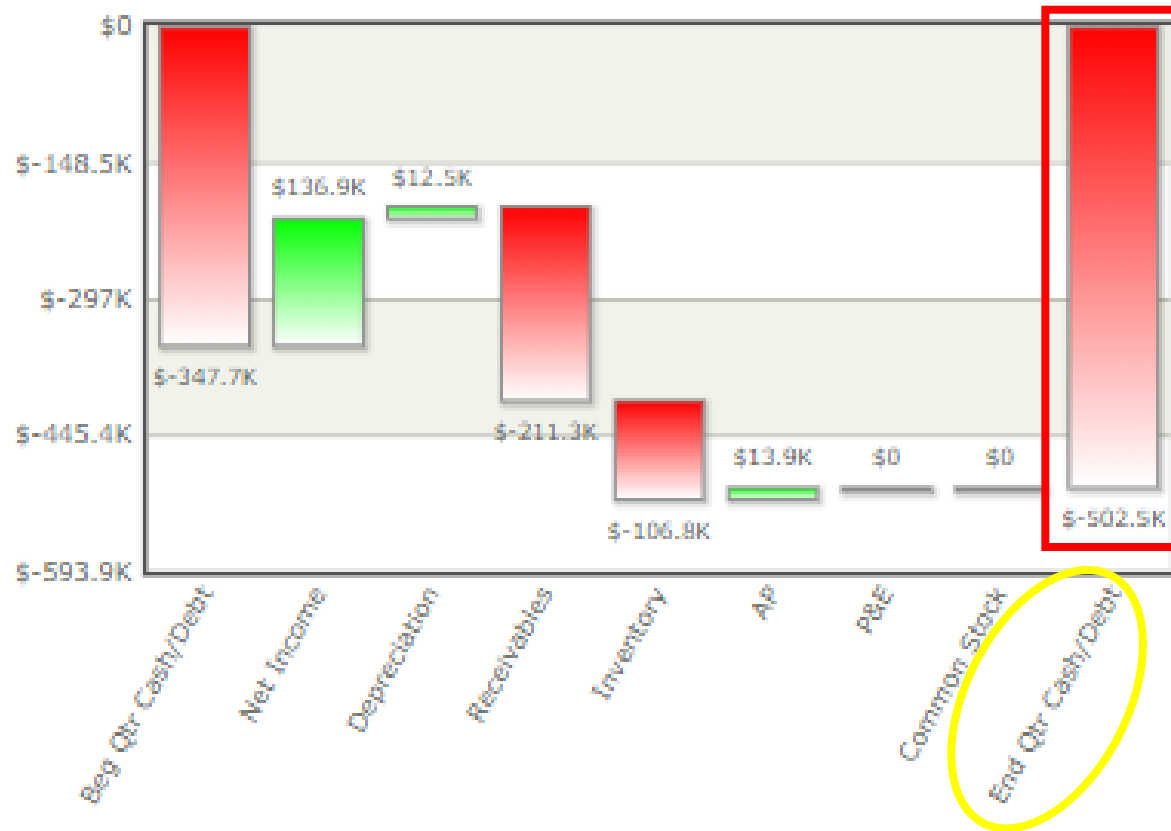
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Common Stock shows the sale (source of cash – green bar) or repurchase (use of cash – red bar) of the stock in the company. If a bar shows \$0, it means that the item neither used nor contributed to cash in that quarter.

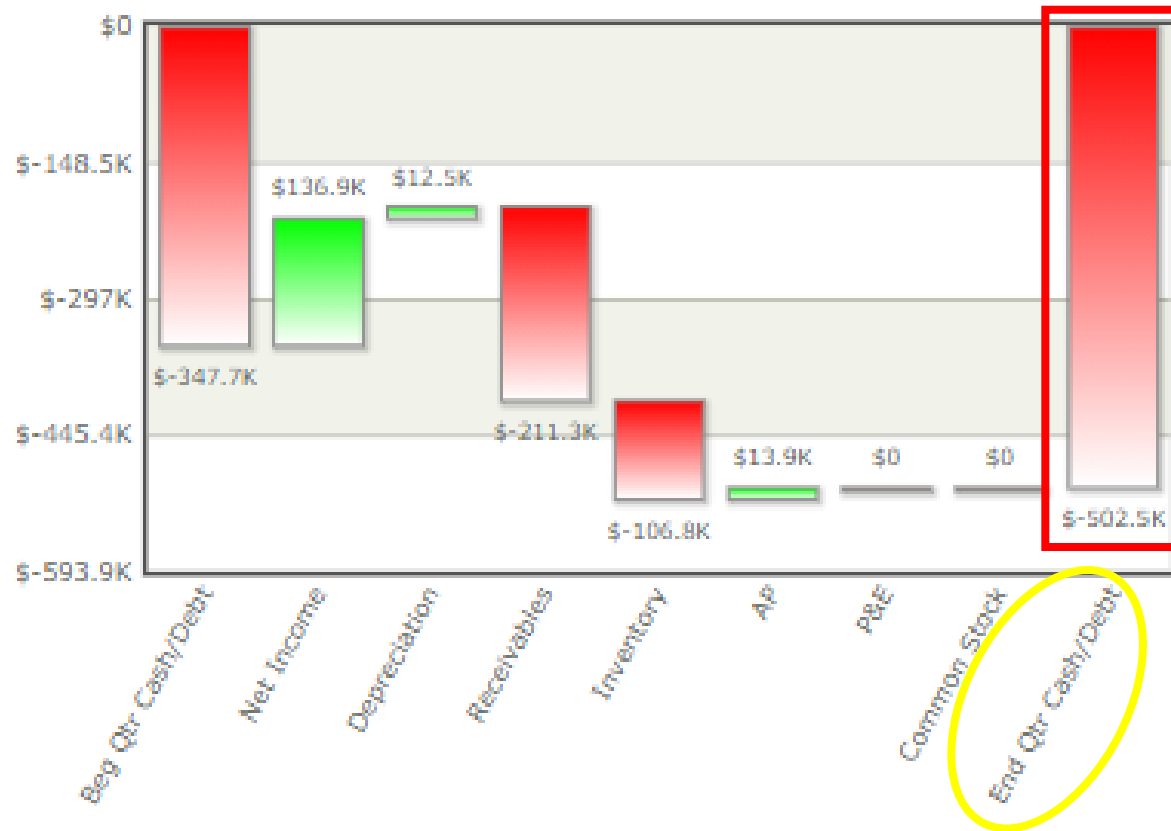
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Once we start with the beginning balance, and add all the sources and subtract all the uses of cash in the quarter, we end up with the cash balance at the end of the quarter. You will see the ending balance in Cash (if the bar is green) or Debt (if the bar is red) on the Balance Sheet. In this example, there was more cash outflow than inflow in the quarter, so the debt balance at the end of the quarter is higher than the beginning balance. If the inflow was more than the outflow, the result would show either less debt being used, or cash on the Balance Sheet.

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When you are explaining the Cash Flow walk, using data and numbers will help support your explanations. The Cash Flow Walk section of the QBR (as well as the Pre-Tax Net Income Walk section of the QBR) should contain many numbers in your explanations. Use \$ and % to paint the picture to your audience of what happened in the quarter.