

# **Funds Analysis, Cash- Flow Analysis, and Financial Planning**



# ***After studying you should be able to:***

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- ◆ Explain the difference between the flow of funds (sources and uses of funds) statement and the statement of cash flows -- and understand the benefits of using each.
- ◆ Define "funds" and identify sources and uses of funds.
- ◆ Create a sources and uses of funds statement, make adjustments, and analyze the final results.
- ◆ Describe the purpose and content of the statement of cash flows as well as implications that can be drawn from it.
- ◆ Prepare a cash budget from forecasts of sales, receipts, and disbursements -- and know why such a budget should be flexible.
- ◆ Develop forecasted balance sheets and income statements.
- ◆ Understand the importance of using probabilistic information in forecasting financial statements and evaluating a firm's condition.



# ***Funds Analysis, Cash-Flow Analysis, and Financial Planning***

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- ◆ **Flow of Funds (Sources and Uses) Statement**
- ◆ **Accounting Statement of Cash Flows**
- ◆ **Cash-Flow Forecasting**
- ◆ **Range of Cash-Flow Estimates**
- ◆ **Forecasting Financial Statements**



# ***Flow of Funds Statement***

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A summary of a firm's changes in financial position from one period to another; it is also called a *sources and uses of funds statement* or a *statement of changes in financial position*.

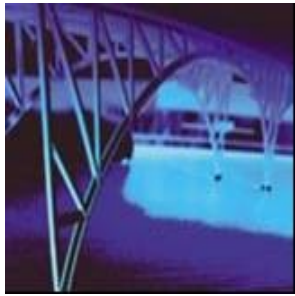


# ***Why Examine the Flow of Funds Statement***

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## ***QUESTION?***

**Why should we bother to understand a Flow of Funds Statement that is no longer required to appear in U.S. audited annual reports?**



# ***Why Examine the Flow of Funds Statement***

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## ***The Flow of Funds Statement:***

- ◆ Includes important noncash transactions while the cash flow statement does not.
- ◆ Is easy to prepare and often preferred by managers for analysis purposes over the more complex cash flow statement.
- ◆ Helps you to better understand the cash flow statement, especially if it is prepared under the “indirect method.”



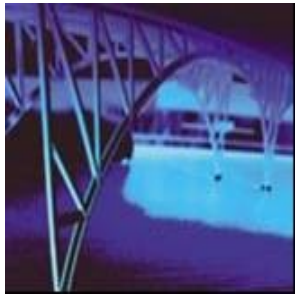
# ***Flow of Funds Statement***

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What are “**funds**”?

All of the firm’s ***investments and claims*** against those investments.

Extends **beyond just** transactions involving **cash**.



# ***Sources and Uses Statement***

The letters labeling the boxes stand for **Uses**, **Sources**, **Assets**, and **Liabilitys** (broadly defined). The pluses (minuses) indicate increases (decreases) in assets or liabilities.

	<b>A</b>	<b>L</b>
<b>S</b>	-	+
<b>U</b>	+	-





# ***BW's Determination of Sources and Uses***

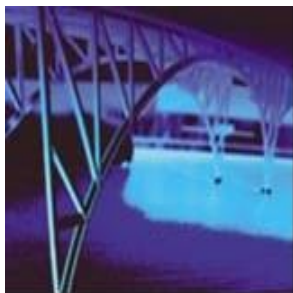
<b>Assets</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>S/U</b>
Cash and C.E.	\$ 90	\$ 100	-	S
Acct. Rec.	394	410	-	S
Inventories	696	616	+	U
Prepaid Exp	5	5	--	--
Accum Tax Prepay	<u>10</u>	<u>9</u>	+	U
		\$ 1,140		N/A
<b>Current Assets</b>	\$ 1,195	930		N/A
Fixed Assets (@Cost)	<u>1030</u>	<u>(299)</u>		N/A
Less: Acc. Depr.	(329)	\$ 631	+	U
<b>Net Fix. Assets</b>	\$ 701	50		--
Investment, LT	50	<u>223</u>		--
<b>Other Assets, LT</b>	<u>223</u>	\$ 2,044		



# ***BW's Determination of Sources and Uses***

<b>Assets</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>S/U</b>
Cash and C.E.	\$ 90	\$ 100	\$10	S
Acct. Rec.	394	410	16	S
Inventories	696	616	80	U
Prepaid Exp	5	5	--	--
Accum Tax Prepay	<u>10</u>	<u>9</u>	1	U
		\$ 1,140		N/A
<b>Current Assets</b>	\$ 1,195	930		N/A
Fixed Assets (@Cost)	<u>1030</u>	<u>(299)</u>		N/A
Less: Acc. Depr.	(329)	\$ 631	70	U
<b>Net Fix. Assets</b>	\$ 701	50		--
Investment, LT	50	<u>223</u>		--
Other Assets, LT	<u>223</u>	\$ <del>2,044</del>		

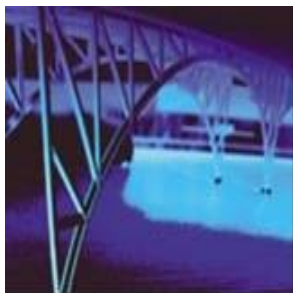
# ***BW's Determination of Sources and Uses***



<b>Liabilities and Equity</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>S/U</b>
Notes Payable	\$ 290	\$ 295	-	U
Acct. Payable	94	94	--	--
Accrued Taxes	16	16	--	--
Other Accrued Liab.	<u>100</u>	<u>100</u>	--	--
		\$ <b>505</b>		N/A
<b>Current Liab.</b>	\$ <b>500</b>	<b>453</b>	+	S
<b>Long-Term Debt</b>	<b>530</b>			
<u>Shareholders' Equity</u>		200		--
Com. Stock (\$1 par)	200	729	--	--
Add Pd in Capital	729	157	+	S
Retained Earnings	<u>210</u>	<u>1086</u>		N/A
<b>Total Equity</b>	\$ <b><u>1,139</u></b>	\$ <b><u>2,044</u></b>		

**Total Liab./Equity \$ 2,160**

# ***BW's Determination of Sources and Uses***



<b>Liabilities and Equity</b>	<b>2007</b>	<b>2006</b>	<b>+/-</b>	<b>S/U</b>
Notes Payable	\$ 290	\$ 295	\$ 5	U
Acct. Payable	94	94	--	--
Accrued Taxes	16	16	--	--
Other Accrued Liab.	<u>100</u>	<u>100</u>	--	--
		\$ <b>505</b>		N/A
<b>Current Liab.</b>	\$ <b>500</b>	<b>453</b>	77	S
<b>Long-Term Debt</b>	<b>530</b>			
<u>Shareholders' Equity</u>		200		--
Com. Stock (\$1 par)	200	729		--
Add Pd in Capital	729	157	53	S
Retained Earnings	<u>210</u>	<u>1086</u>		N/A
<b>Total Equity</b>	\$ <b>1,139</b>	\$ <b>2,044</b>		

**Total Liab./Equity** \$ 2,160



# ***“Basic” Sources and Uses Statement***

## **SOURCES**

Increase, Retained Earnings	\$ 53
Decrease, Accounts Receivable	16
Increase, Long-Term Debt	77
Decrease, Cash + Cash Equivalents	<u>10</u>

## **USES**

Increase, Inventories	\$80
Increase, Accum Tax Prepay	1
Decrease, Notes Payable	5
Increase, Net Fixed Assets	<u>70</u>

**\$156**

**\$156**



# ***Adjusting the “Basic” Sources and Uses Statement***

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**The following three slides are  
Basket Wonders’ Balance Sheet  
and Income Statement.**

**This information will be needed  
to adjust the “basic” Sources  
and Uses Statement.**

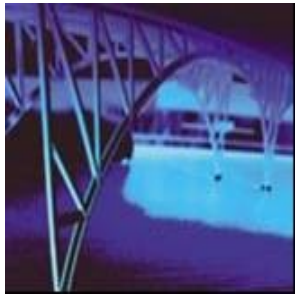


# ***Basket Wonders' Balance Sheet (Asset Side)***

**Basket Wonders Balance Sheet (thousands) Dec. 31, 2007<sup>a</sup>**

Cash and C.E.	\$	90
Acct. Rec. <sup>c</sup>		394
Inventories		696
Prepaid Exp <sup>d</sup>		5
Accum Tax Prepay		<u>10</u>
<b>Current Assets<sup>e</sup></b>	<b>\$</b>	<b>1,195</b>
Fixed Assets (@Cost) <sup>f</sup>		<u>1030</u>
Less: Acc. Depr. <sup>g</sup>		(329)
<b>Net Fix. Assets</b>	<b>\$</b>	<b>701</b>
Investment, LT		50
Other Assets, LT		<u>223</u>
<b>Total Assets<sup>b</sup></b>	<b>\$</b>	<b>2,169</b>

- How the firm stands on a specific date.*
- What BW owned.*
- Amounts owed by customers.*
- Future expense items already paid.*
- Cash/likely convertible to cash within 1 year.*
- Original amount paid.*
- Acc. deductions for wear and tear.*



# ***Basket Wonders' Balance Sheet (Liability Side)***

**Basket Wonders Balance Sheet (thousands) Dec. 31, 2007**

Notes Payable	\$ 290	
Acct. Payable <sup>c</sup>	94	
Accrued Taxes <sup>d</sup>	16	
Other Accrued Liab. <sup>d</sup>	<u>100</u>	
	<b>Current Liab.<sup>e</sup></b>	<b>\$</b>
<b>500</b> Long-Term Debt <sup>f</sup>		
<b>530</b> Shareholders' Equity		
Com. Stock (\$1 par) <sup>g</sup>	200	
Add Pd in Capital	729	
Retained Earnings <sup>h</sup>	<u>210</u>	
<b>Equity</b>	<b><u>\$1,139</u></b>	<b>Total</b>

- a. Note, Assets = Liabilities + Equity.
- b. What BW owed and ownership position.
- c. Owed to suppliers for goods and services.
- d. Unpaid wages, salaries, etc.
- e. Debts payable < 1 year.
- f. Debts payable > 1 year.
- g. Original investment.
- h. Earnings reinvested.





# ***Basket Wonders'***

## ***Income Statement***

**Basket Wonders Statement of Earnings (in thousands) for  
Year Ending December 31, 2007<sup>a</sup>**

<b>Net Sales</b>	<b>\$ 2,211</b>	<i>a. Measures profitability over a time period.</i>
<b>Cost of Goods Sold<sup>b</sup></b>	<b><u>1,599</u></b>	<i>b. Received, or receivable, from customers.</i>
<b>Gross Profit</b>	<b>\$ 612</b>	<i>c. Sales comm., adv., officer's salaries, etc.</i>
<b>SG&amp;A Expenses<sup>c</sup></b>	<b><u>402</u></b>	<i>d. Operating income.</i>
<b>EBIT<sup>d</sup></b>	<b>\$</b>	<i>e. Cost of borrowed funds.</i>
<b>210 Interest Expense<sup>e</sup></b>	<b>—</b>	<i>f. Taxable income.</i>
<b>59 EBT<sup>f</sup></b>	<b>\$</b>	<i>g. Amount earned for shareholders.</i>
<b>151 Income Taxes</b>	<b>—</b>	
<b>60 EAT<sup>g</sup></b>	<b>\$ 91</b>	
<b>Cash Dividends</b>	<b><u>38</u></b>	
<b>Increase in RE</b>	<b>\$ <u>53</u></b>	



# ***Adjusting the “Basic” Sources and Uses Statement***

## **Recognize Profits and Dividends**

**Change in retained earnings is composed of profits and dividends.**

<b>Source:</b>	<b>Net Profit</b>	<b>\$91</b>
<b>Less Use:</b>	<b>Cash Dividends</b>	<b><u>38</u></b>
<b>(Net) Source:</b>	<b>Incr., R.E.</b>	<b>\$53</b>

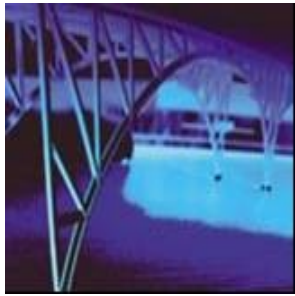


# ***Adjusting the “Basic” Sources and Uses Statement***

## **Recognize Depreciation and Gross Changes in Fixed Assets**

**Change in net fixed assets is composed  
of depreciation and fixed assets.**

<b>Source:</b>	<b>Depreciation</b>	<b>\$ 30</b>
<b>Less Use:</b>	<b>Add. to F.A.</b>	<b><u>100</u></b>
<b>(Net) Use:</b>	<b>Incr., Net F.A.</b>	<b>\$ 70</b>



# ***Sources and Uses*** ***Statement (Sources Side)***

## **SOURCES**

### **Funds provided by operations**

**Net Profit** **\$ 91**

**Depreciation** **30**

**Decrease, Accounts Receivable** **16**

**Increase, Long-Term Debt** **77**

**Decrease, Cash + Cash Equivalents** **10**

**\$224**



# ***Sources and Uses Statement (Uses Side)***

## **USES**

<b>Dividends</b>	<b>\$ 38</b>
<b>Additions to fixed assets</b>	<b>100</b>
<b>Increase, Inventories</b>	<b>80</b>
<b>Increase, Accum. Tax Prepay</b>	<b>1</b>
<b>Decrease, Notes Payable</b>	<b><u>5</u></b>
	<b><u>\$224</u></b>



# ***Analyzing the Sources and Uses Statement***

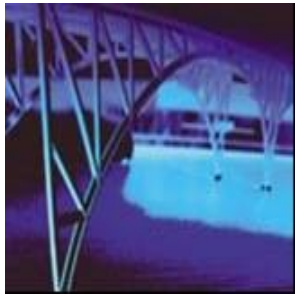
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## **Sources**

**Primarily through net profit from operations and long-term debt increases.**

## **Uses**

**Primarily through an increase in inventories and expenditures on capital assets.**



# ***Statement of Cash Flows***

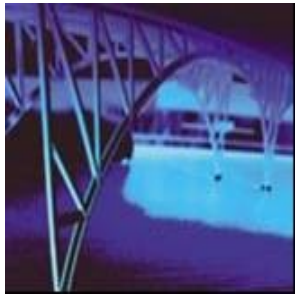
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A summary of a firm's payments during a period of time.

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This statement reports cash **inflows** and **outflows** based on the firm's

**operating activities,**  
**investing activities, and**  
**financing activities.**



# ***Statement of Cash Flows***

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## **Cash Flow from Operating Activities**

**Shows impact of transactions not defined as investing or financing activities.**

- ◆ **These cash flows are generally the cash effects of transactions that enter into the determination of net income.**





# ***Cash Flow From Operating Activities***

## **Cash Inflows**

**From sales of goods or services**

**From interest and dividend income**

## **Cash Outflows**

**To pay suppliers for inventory**

**To pay employees for services**

**To pay lenders (interest)**

**To pay government for taxes**

**To pay other suppliers for other  
operating expenses**



# ***Cash Flow From Operating Activities***

It would seem more logical to classify **interest and dividend income** as an “investing” inflow, while **interest paid** certainly looks like a “financing” outflow.

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# ***Statement of Cash Flows***

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## **Cash Flow from Investing Activities**

**Shows impact of buying and selling fixed assets and debt or equity securities of other entities.**

## **Cash Flow from Financing Activities**

**Shows impact of all cash transactions with shareholders and the borrowing and repaying transactions with lenders.**



# ***Cash Flow From Investing Activities***

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## **Cash Inflows**

**From sale of fixed assets (property, plant, equipment)**

**From sale of debt or equity securities (other than common equity) of other entities**

## **Cash Outflows**

**To acquire fixed assets (property, plant, equipment)**

**To purchase debt or equity securities (other than common equity) of other entities**



# ***Cash Flow From Financing Activities***

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## **Cash Inflows**

**From borrowing**

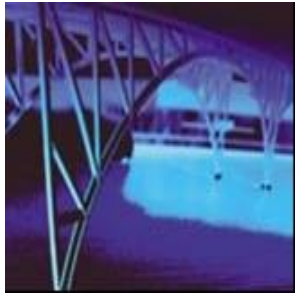
**From the sale of the firm's own equity securities**

## **Cash Outflows**

**To repay amounts borrowed**

**To repurchase the firm's own equity securities**

**To pay shareholders dividends**

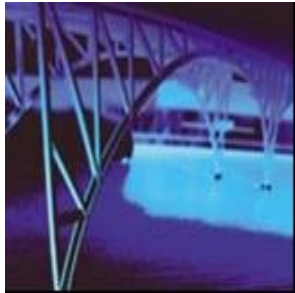


# ***Indirect Method -- Statement of Cash Flows***

## **Cash Flow from Operating Activities**

Net Income	\$ 91
Depreciation	30
Decrease, accounts receivable	16
Increase, inventories	( 80)
Increase, accum. tax prepay	( 1)

<b>Net cash provided (used) by operating activities</b>	<b>\$ 56</b>
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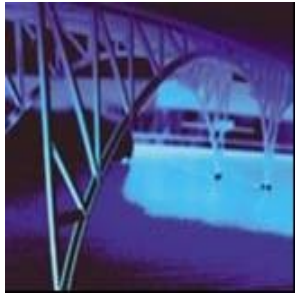


# ***Indirect Method -- Statement of Cash Flows***

## **Cash Flow from Investing Activities**

<b>Additions to Fixed Assets</b>	<b><u>\$(100)</u></b>
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<b>Net cash provided (used) by investing activities</b>	<b><u>\$(100)</u></b>
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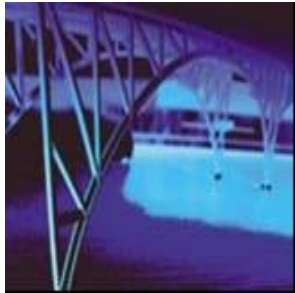
# ***Indirect Method -- Statement of Cash Flows***

## **Cash Flow from Financing Activities**

Increase, notes payable	\$ ( 5)
Increase, long-term debt	77
Dividends paid	<u>( 38)</u>

<b>Net cash provided (used) by financing activities</b>	<b><u>\$ 34</u></b>
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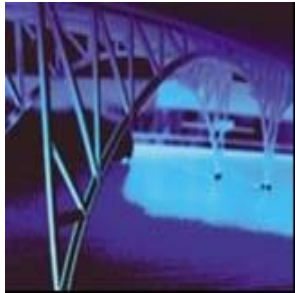
# ***Indirect Method -- Statement of Cash Flows***

<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ ( 10)</b>
<b>Cash and cash equivalents, 2006</b>	<b><u>100</u></b>
<b>Cash and cash equivalents, 2007</b>	<b><u>\$ 90</u></b>

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<b>Supplemental cash flow disclosures</b>	
<b>Interest paid</b>	<b>\$ 59</b>
<b>Taxes paid</b>	<b>60</b>



# ***Direct Method -- Statement of Cash Flows***

## **Cash Flow from Operating Activities**

Cash received from customers <sup>a</sup>	\$2,227
Cash paid to suppliers and employees <sup>b</sup>	(2,051)
Interest paid	( 59)
Taxes paid <sup>c</sup>	( 61)

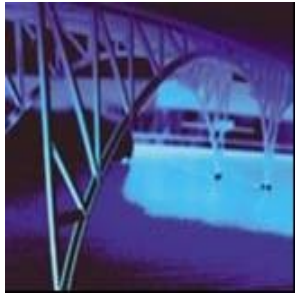
<b>Net cash provided (used) by operating activities</b>	<b>\$ 56</b>
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a, b, c See Worksheet on next slide for calculation



# ***Worksheet for Preparing Operating Activities Section***

(a)	Sales	\$2,211
+(-)	<u>Decrease (increase) in AR</u>	<u>16</u>
	Cash received from customers	\$2,227
<hr/>		
(b)	COGS - Depreciation + SGA	\$1,971
+(-)	<u>Increase (decrease) in inventory</u>	<u>80</u>
	Cash paid to suppliers and employees	\$2,051
<hr/>		
(c)	Income taxes (federal / state)	\$ 60
+(-)	<u>Incr (Decr) in accum. tax prepay</u>	<u>1</u>
	Taxes paid	\$ 61



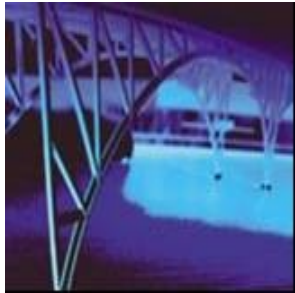
# ***Direct Method -- Statement of Cash Flows***

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## **Cash Flow from Investing Activities**

<b>Additions to Fixed Assets</b>	<b><u>\$(100)</u></b>
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<b>Net cash provided (used) by investing activities</b>	<b><u>\$(100)</u></b>
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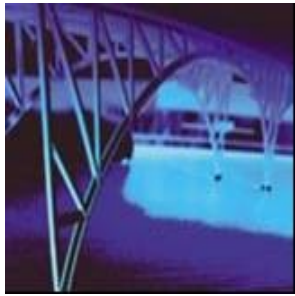


# ***Direct Method -- Statement of Cash Flows***

## **Cash Flow from Financing Activities**

Decrease, notes payable	\$ ( 5)
Increase, long-term debt	77
Dividends paid	<u>( 38)</u>

<b>Net cash provided (used) by financing activities</b>	<b><u>\$ 34</u></b>
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# ***Direct Method -- Statement of Cash Flows***

<b>Increase (decrease) in cash and cash equivalents</b>	<b>\$ ( 10)</b>
<b>Cash and cash equivalents, 2006</b>	<b>100</b>
<b>Cash and cash equivalents, 2007</b>	<b><u>\$ 90</u></b>
<hr/>	
<b>Supplemental cash flow disclosures</b>	
<b>Net Income</b>	<b>\$ 91</b>
<b>Depreciation</b>	<b>30</b>
<b>Decrease, accounts receivable</b>	<b>16</b>
<b>Increase, inventories</b>	<b>( 80)</b>
<b>Increase, accum. tax prepay</b>	<b><u>( 1)</u></b>
<b>Net cash provided (used) by operating activities</b>	<b><u>\$ 56</u></b>



# ***Cash Flow Forecasting***

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**A **Cash Budget** is a forecast of a firm's future cash flows arising from collections and disbursements, usually on a monthly basis.**

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## **The financial manager is better able to:**

- ◆ **Determine the future cash needs of the firm**
- ◆ **Plan for the financing of these needs**
- ◆ **Exercise control over cash and liquidity of the firm**



# ***The Sales Forecast***

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## ***Internal Sales Forecast***

- ◆ **Sales representatives project sales for the period in question (sales under their control or management).**
- ◆ **Sales projections are screened and consolidated for product lines.**
- ◆ **Product line sales projections are consolidated into a single forecast.**





# ***The Sales Forecast***

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## ***External Sales Forecast***

- ◆ **Economists project overall economic and business trends that will affect the firm.**
- ◆ **Expected market share is projected for current and new product lines.**
- ◆ **Product line sales projections are consolidated into a single forecast.**



# ***BW's Cash Flow Forecast***

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**Lisa Miller has finalized a cash flow forecast for the first six months of 2008. Lisa is expecting 90% of monthly sales will be credit sales with 80% of credit sales collected in 30 days, 20% in 60 days, and no “bad debts.”**

**Hint: The cash flow forecast will be used in forecasting the financial statements later in this chapter.**



# ***Collections and Other Cash Receipts (Thousands)***

## **SALES**

**Credit Sales, 90%**

**Cash Sales, 10%**

**Total Sales, 100%**

## **CASH COLLECTIONS**

**Cash sales, current  
80% of last month's  
credit sales**

**20% of 2-month-old  
credit sales**

	NOV	DEC	JAN	FEB
	\$193	\$212	\$154	\$135
	21	24	17	15
	<u>\$214</u>	<u>\$236</u>	<u>\$171</u>	<u>\$150</u>
			\$ 17	\$ 15
			169	123
			39	42
			<u>————</u>	<u>————</u>
			<u>\$225</u>	<u>\$180</u>



# ***Collections and Other Cash Receipts (Thousands)***

## **SALES**

**Credit Sales, 90%**

**Cash Sales, 10%**

**Total Sales, 100%**

**MAR**

**APR**

**MAY**

**JUN**

**\$256**

**\$205**

**\$160**

**\$190**

**28**

**23**

**18**

**21**

**\$284**

**\$228**

**\$178**

**\$211**

## **CASH COLLECTIONS**

**Cash sales, current**

**80% of last month's  
credit sales**

**20% of 2-month-old  
credit sales**

**\$ 28**

**\$ 23**

**\$ 18**

**\$ 21**

**108**

**205**

**164**

**128**

**31**

**27**

**51**

**41**

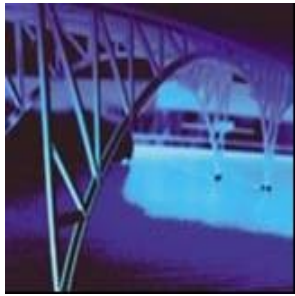
**\$167**

**\$255**

**\$233**

**\$190**

44 **Total sales receipts**



# ***Schedule of Projected Cash Disbursements (Thousands)***

	<b>DEC</b>	<b>JAN</b>	<b>FEB</b>
<b>Purchases</b>	<b>\$ 39</b>	<b>\$ 35</b>	<b>\$ 64</b>
<b><u>CASH DISBURSEMENTS FOR PURCHASES</u></b>			
<b><u>AND OPERATING EXPENSES</u></b>			
<b>100% of last month's purchases</b>		<b>\$ 39</b>	<b>\$ 35</b>
<b>Wages paid</b>		<b>90</b>	<b>94</b>
<b>Other expenses paid</b>		<b>34</b>	<b>34</b>
<b>Total disbursements (purchases and operating expenses)</b>		<b><u>\$163</u></b>	<b><u>\$163</u></b>



# ***Schedule of Projected Cash Disbursements (Thousands)***

	<b>MAR</b>	<b>APR</b>	<b>MAY</b>	<b>JUN</b>
<b>Purchases</b>	<b>\$ 53</b>	<b>\$ 40</b>	<b>\$ 48</b>	<b>\$ 50</b>
<b><u>CASH DISBURSEMENTS FOR PURCHASES AND OPERATING EXPENSES</u></b>				
<b>100% of last month's purchases</b>	<b>\$ 64</b>	<b>\$ 53</b>	<b>\$ 40</b>	<b>\$ 48</b>
<b>Wages paid</b>	<b>111</b>	<b>107</b>	<b>92</b>	<b>92</b>
<b>Other expenses paid</b>	<b><u>34</u></b>	<b><u>34</u></b>	<b><u>34</u></b>	<b><u>34</u></b>
<b>Total disbursements (purchases and operating expenses)_</b>	<b><u>\$209</u></b>	<b><u>\$194</u></b>	<b><u>\$166</u></b>	<b><u>\$174</u></b>



# ***Schedule of Net Cash Disbursements (Thousands)***

	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>
Total disbursements for purchases and operating expenses_	\$163	\$163	\$209
Capital expenditures	70	40	0
Dividend payments	0	0	9
Income taxes	<u>25</u>	<u>0</u>	<u>0</u>
Total cash disbursements	<u>\$258</u>	<u>\$203</u>	<u>\$218</u>



# ***Schedule of Net Cash Disbursements (Thousands)***

	<u>APR</u>	<u>MAY</u>	<u>JUN</u>
Total disbursements for purchases and operating expenses_	\$194	\$166	\$174
Capital expenditures	0	0	0
Dividend payments	0	0	10
Income taxes	<u>25</u>	<u>0</u>	<u>0</u>
Total cash disbursements	<u>\$219</u>	<u>\$166</u>	<u>\$184</u>





# ***Projected Net Cash Flows and Cash Balances***

	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>
<b>Beginning cash balance</b>	<b>\$ 90</b>	<b>\$ 57</b>	<b>\$ 34</b>
<b>Total cash receipts</b>	<b>225</b>	<b>180</b>	<b>167</b>
<b>Total cash disbursements</b>	<b><u>258</u></b>	<b><u>203</u></b>	<b><u>218</u></b>
<b>Net cash flow</b>	<b>\$( 33)</b>	<b>\$( 23)</b>	<b>\$( 51)</b>
<b>Ending cash balance without additional financing</b>	<b><u>\$ 57</u></b>	<b><u>\$ 34</u></b>	<b><u>\$( 17)</u></b>



# ***Projected Net Cash Flows and Cash Balances***

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	<u>APR</u>	<u>MAY</u>	<u>JUN</u>
<b>Beginning cash balance</b>	<b>\$( 17)</b>	<b>\$ 19</b>	<b>\$ 86</b>
<b>Total cash receipts</b>	<b>255</b>	<b>233</b>	<b>190</b>
<b>Total cash disbursements</b>	<b><u>219</u></b>	<b><u>166</u></b>	<b><u>184</u></b>
<b>Net cash flow</b>	<b>\$ 36</b>	<b>\$ 67</b>	<b>\$ 6</b>
<b>Ending cash balance without additional financing</b>	<b><u>\$ 19</u></b>	<b><u>\$ 86</u></b>	<b><u>\$ 92</u></b>



# ***Range of Cash-Flow Estimates***

Examine factors that may influence **cash receipts** such as changes in the state of the economy that influence consumer buying decisions and pricing strategies.

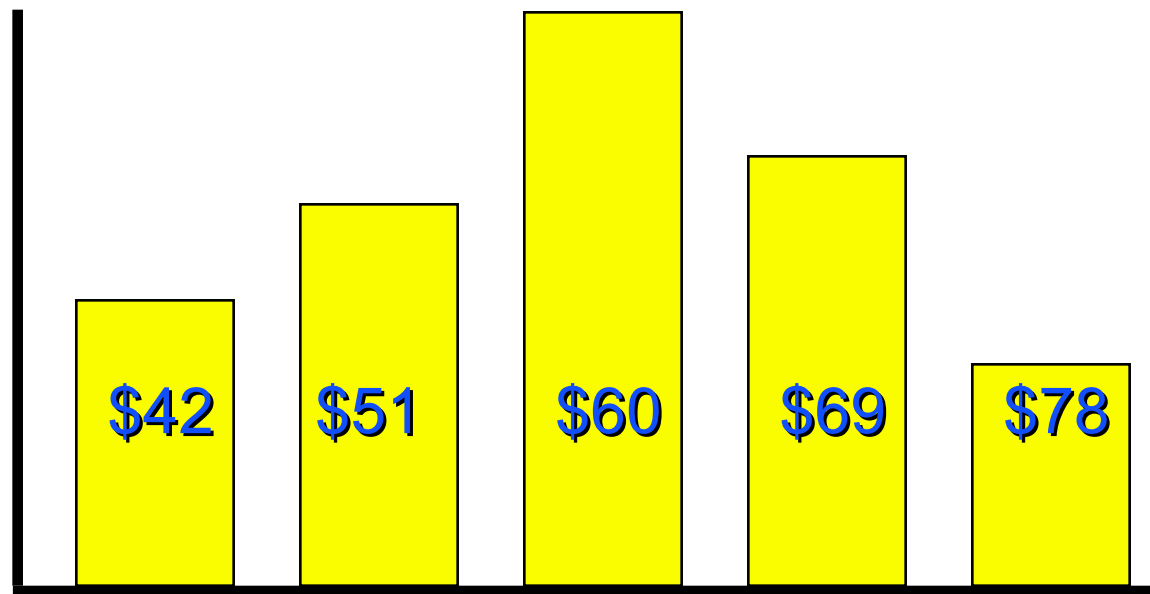
**Examine factors that may influence cash disbursements** such as changes in the state of the economy that impact operations, capital expenditures, and dividend payments.



# ***Management Uncertainty in Ending Cash Balances***

January Distribution

PROBABILITY OF  
OCCURRENCE



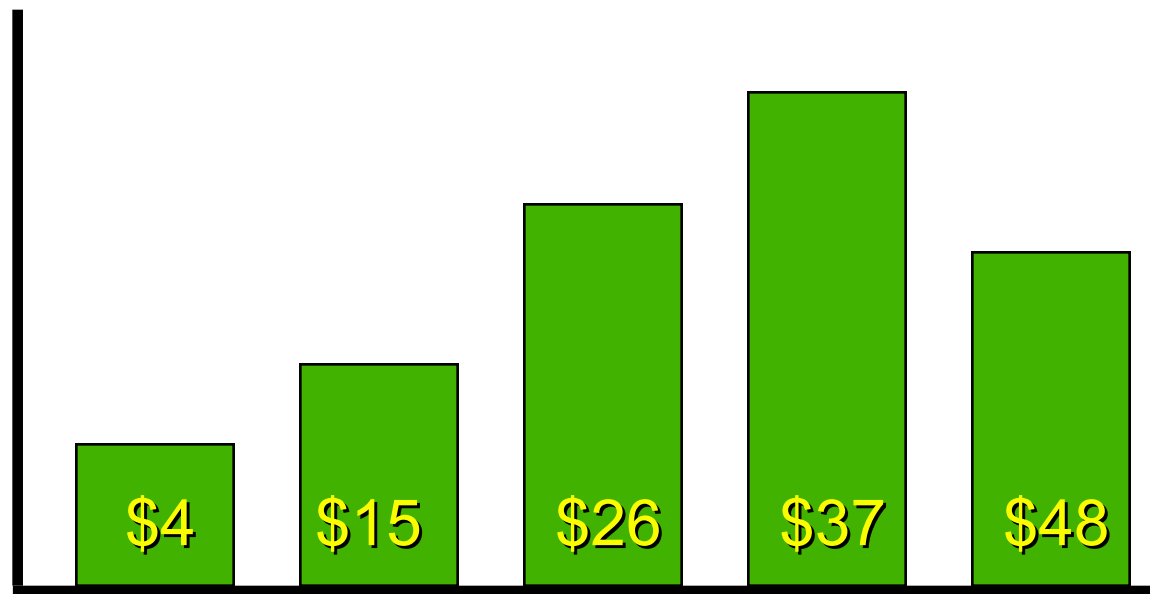
ENDING CASH BALANCE  
(thousands)



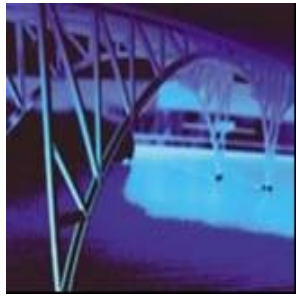
# ***Management Uncertainty in Ending Cash Balances***

February Distribution

PROBABILITY OF  
OCCURRENCE



ENDING CASH BALANCE  
(thousands)



# ***Summary of the Range of Cash-Flow Estimates***

- ◆ **Allows examination of the relevant factors which may generate uncertainty regarding future cash flows.**
- ◆ **Enables management to better plan for contingencies that will arise than using a single-point estimate of monthly cash flows.**



# ***Forecasting Financial Statements***

**Expected future financial statements based on conditions that management expects to exist and actions it expects to take.**

## **Considerations**

- (1) Forecasted Income Statement**
- (2) Forecasted Balance Sheet**



# ***Forecasting BW's Income Statement***

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Lisa Miller is forecasting the income statement for 2008. She estimates that **sales** for the 6 months ended June 30 will be **\$1,222,000**. **COGS** are estimated from the **average of years 2005 through 2007**. **Selling, general, and administrative costs** are forecasted at **\$34,000 per month**, while the income tax rate is assumed equal to 40%. **Cash dividends** and interest expenses are expected to **remain constant**.





# ***Basket Wonders' Forecasted Income Statement***

**Basket Wonders Forecasted Statement of Earnings (in thousands) for Six Months Ending June 30, 2008**

<b>Net Sales<sup>a</sup></b>	<b>\$</b>	<b>1,222</b>
<b>Cost of Goods Sold<sup>b</sup></b>		<u><b>865</b></u>
<b>Gross Profit</b>	<b>\$</b>	<b>357</b>
<b>SG&amp;A Expenses<sup>c</sup></b>		<u><b>204</b></u>
<b>EBIT</b>	<b>\$</b>	
<b>153 Interest Expense<sup>d</sup></b>		<u><b>29</b></u>
<b>EBT</b>	<b>\$</b>	
<b>124 Income Taxes</b>		<u><b>50</b></u>
<b>EAT</b>	<b>\$</b>	<b>74</b>
<b>Cash Dividends<sup>e</sup></b>		<u><b>19</b></u>
<b>_Increase in RE</b>	<b>\$</b>	<u><b>55</b></u>

- a. From sales budget.*
- b. Average of 68.7, 71.3, and 72.3% multiplied by net sales.*
- c. \$34,000 x 6 months.*
- d. Assumed to be \$29,000.*
- e. Did not change. Six (6) months of dividends = (.5)(\$38,000) = \$19,000.*



# ***Basket Wonders' Balance Sheet (Asset Side)***

**Forecasted Balance Sheet (thousands) June 30, 2008**

<b>Cash and C.E.<sup>a</sup></b>	<b>\$ 92</b>
<b>Acct. Rec.<sup>b</sup></b>	<b>222</b>
<b>Inventories<sup>c</sup></b>	<b>692</b>
<b>Prepaid Exp</b>	<b>5</b>
<b>Accum Tax Prepay</b>	<b><u>10</u></b>
<b>Current Assets</b>	<b>\$1,021</b>
<b>Fixed Assets (@Cost)</b>	<b><u>1,140</u></b>
<b>Less: Acc. Depr.</b>	<b>(386)</b>
<b>Net Fix. Assets<sup>d</sup></b>	<b>\$ 742</b>
<b>Investment, LT</b>	<b>50</b>
<b>Other Assets, LT</b>	<b><u>223</u></b>
<b>Total Assets</b>	<b>\$2,036</b>

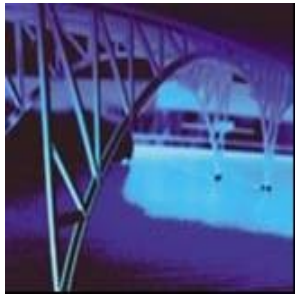
**a. From Cash Flow Forecast.**

**b. 100% June, 20% May.**

**c. Inv Turnover = 2.5/yr.**

**d. Capital expenditure of \$110,000 and depreciation of \$69,000.**

**ASSUMPTIONS**



# ***Basket Wonders' Balance Sheet (Liability Side)***

**Forecasted Balance Sheet (thousands) June 30, 2008**

<b>Notes Payable<sup>a</sup></b>	<b>\$ 226</b>	
<b>Acct. Payable<sup>b</sup></b>	<b>50</b>	
<b>Accrued Taxes<sup>c</sup></b>	<b>16</b>	
<b>Other Accrued Liab.<sup>d</sup></b>	<b><u>20</u></b>	
	<b>Current Liab.</b>	<b>\$</b>
<b>312 Long-Term Debt</b>		
<b>530 Shareholders' Equity</b>		
<b>Com. Stock (\$1 par) 200</b>	<b>Add Pd in Capital</b>	
	<b>729 Retained Earnings<sup>e</sup></b>	
	<b><u>265</u></b>	<b>Total</b>
<b>Equity</b>	<b><u>\$1,194</u></b>	

- a. Previous balance less amount paid down.*
- b. 100% of June purchases.*
- c. No net change in accruals.*
- d. Decrease in unpaid wages, salaries, etc.*
- e. Increase in retained earnings (See 7-57).*

**ASSUMPTIONS**