# A Visual Representation of the Statement of Cash Flows

David O'Bryan, Ph.D., CPA, CMA, CFE**
Professor
Department of Accounting
Kelce College of Business
Pittsburg State University
Pittsburg, Kansas 66762
Voice: (620) 235-4561
Fax: (620) 235-4558
Email: obryan@pittstate.edu

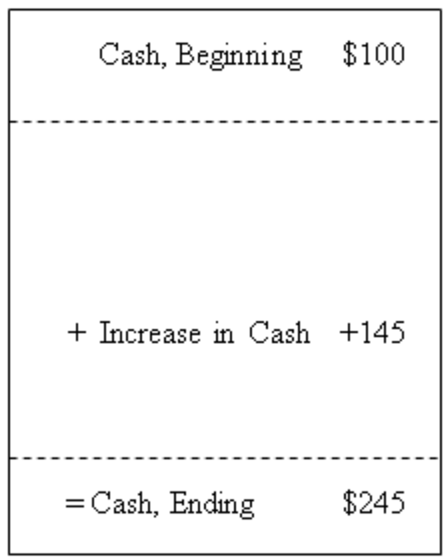
Jeffrey J. Quirin, Ph.D., CMA
Associate Professor
W. Frank Barton Distinguished Chair in Business
School of Accountancy
342 Clinton Hall
Barton College of Business
Wichita State University
Wichita, Kansas 67260
Voice: (316) 978-6258
Fax: (316) 978-3660
Email: jeffrey.quirin@wichita.edu

**Contact Author

## THE BASIC MODEL

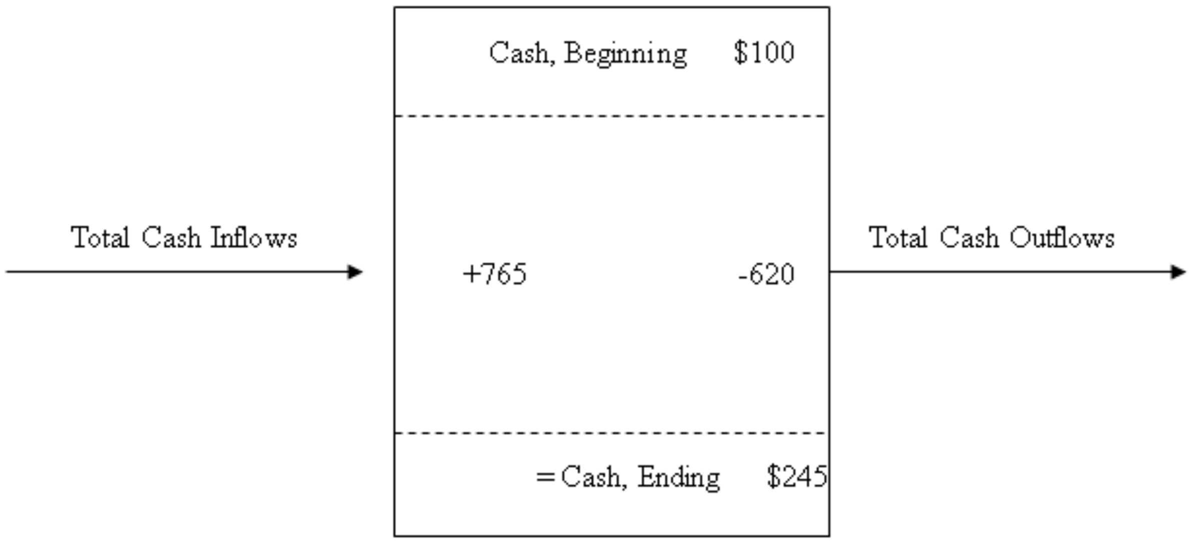
We begin with a basic example that includes a beginning cash balance, a change in cash, and the ending cash balance. Figure 1 contains the numbers we will use in the current example. We present this to the students with the idea that the rectangle represents the company's bank account. To motivate the rest of this discussion we note that Figure 1 does not give us much information about the underlying reasons for the $145 increase in cash.

Figure 1. Overview




Next, we introduce the concept of total, or gross, cash flows. We illustrate flows as horizontal movements of money into and out of the company's bank account. For our example we assume the total cash inflows were $765 and the total cash outflows were -$620, which we point out is consistent with the $145 increase in cash. Figure 2 shows the gross cash flows for this example. We note at this stage in our explanation that many different combinations of inflows and outflows could result in a $145 increase in cash. Reporting the gross cash flows helps us understand the underlying reasons for the change in cash.

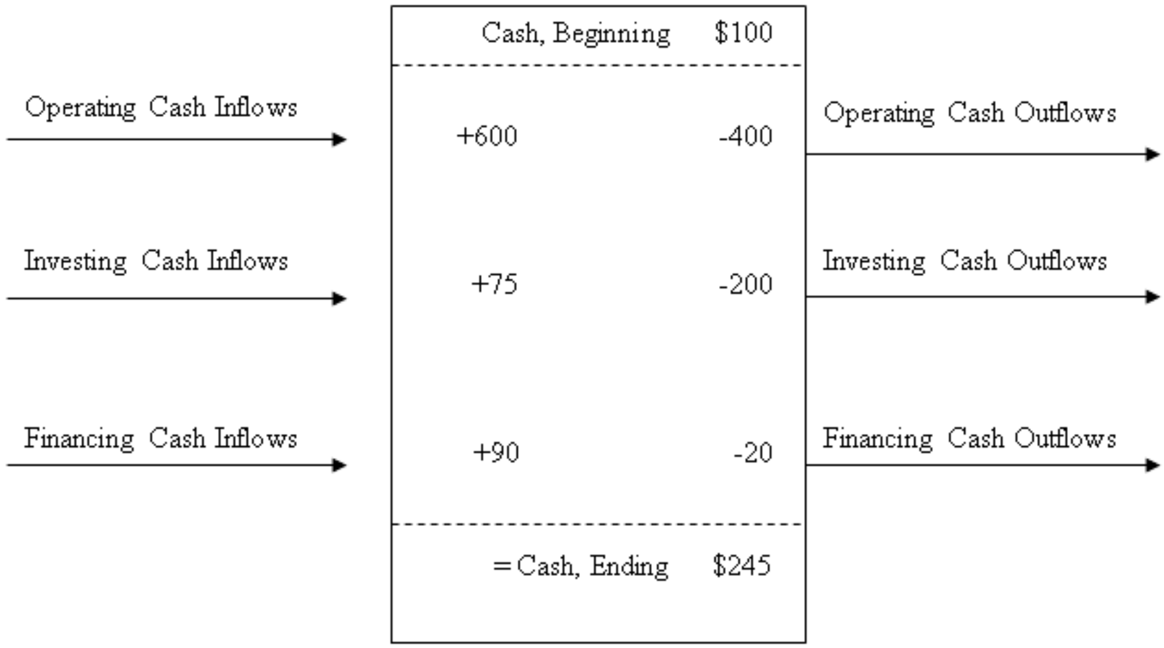
Figure 2. Cash Inflows and Outflows




We are now ready to introduce and briefly explain the three categories of cash flows. There is much room for instructor flexibility here, but we use a brief example of a business start-up to motivate the discussion. First, the business must attract capital, either debt or equity. Second, the new business will use the capital to acquire some long-term assets. Third, the entity will utilize the capital and assets to provide goods or services to its customers. These phases obviously correspond to the Financing, Investing, and Operating activities used to report cash flows.

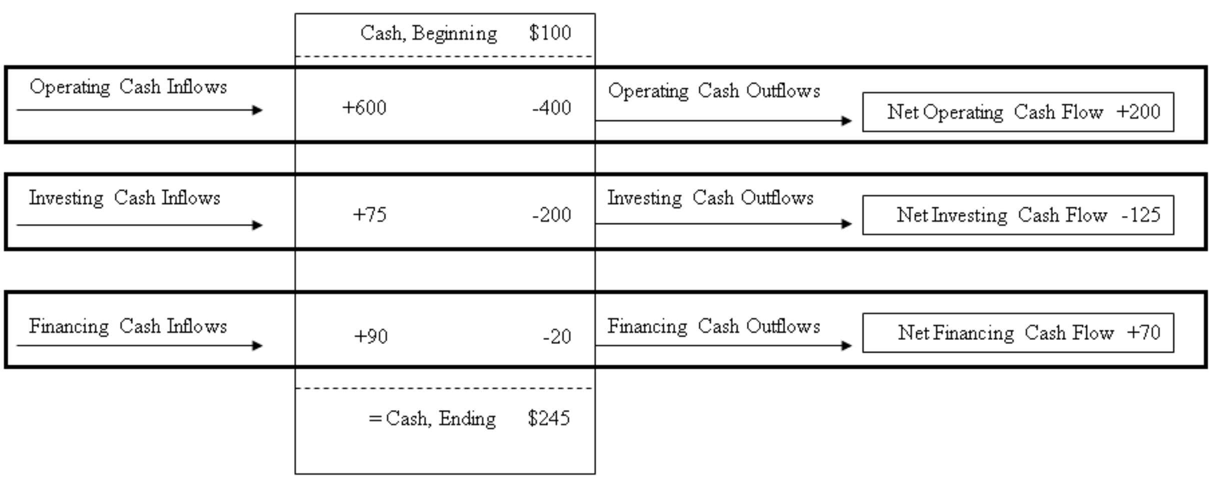
Figure 3 depicts the Operating, Investing, and Financing cash flows for our example. We note several items for students in this figure. First, each category can have inflows and outflows. This seems obvious, but our point is to leave nothing to chance in this explanation. Second, the total operating plus investing plus financing cash inflows (outflows) reconcile to the total cash inflows (outflows) in Figure 2. Third, we try to reinforce the concept of cash flows by discussing the movement of money through the account as represented by the horizontal arrows in our figures. Fourth, we note that we have now added more information because we now know more about the reasons for the total cash inflows and total cash outflows.

Figure 3. Categories of Cash Flows




After discussing the concepts of cash "flows", gross cash flows, and the three categories of cash flows we then introduce the concepts of net cash flows. Figure 4 illustrates these concepts by simply encapsulating the three horizontal layers corresponding to operating, investing, and financing cash flows.

Figure 4. Net Cash Flows



At this point we try to discuss why we report net cash flows in three separate categories. For example, it is easy enough to show that different combinations of net cash flows can still result in a \$145 increase in cash, but that these combinations are not equivalent. For example, in contrast to our example in Figure 4 if the net operating cash flow were -\$200, net investing cash flow \$125, and net financing cash flow \$220, then we get the same increase in cash, but in a very different way. The latter seems to show a company that is losing money from operations, selling off assets, and raising additional capital to remain solvent.

We use Figure 5 to summarize and reinforce some of the earlier discussion. In Figure 5, we use a vertical view to reinforce that the operating, investing, and financing cash inflows reconcile to the total cash inflows from Figure 2 and likewise for the cash outflows. On the right-hand side we also use a vertical view to illustrate that the summation of the three net cash flows explains and reconciles to the increase in cash. Finally, the horizontal capsule at the bottom is a summary of the activity that took place in the cash account during the period.