9 Cash flow statements



Get Ready!

1 Before you read the passage, talk about these questions.

1 What is a cash flow statement?
2 What are some of the things that go on a cash flow statement?

Where Did All That Cash Go?

R.H. Benton Enterprises, Inc.
Cash Flow
for Year ending December 31, 2011

Cash flow from Operations		
Cash generated from sales	100,000	
Payments to suppliers and employees	(70,000)	
Payments on debts	(15,000)	
Payments on taxes	(5,000)	
Net cash flow from operating activities		10,000
Cash flow from Investing		
Payments for new investments	(9,000)	
Dividends received	2,000	
Net cash flow from investing		(7,000)
Cash flow from Financing		
Debt increases	4,000	
Dividends paid to stockholders	(8,000)	
Net cash flow from Financing Activities		(4,000)
Net cash flow		(1,000)
Cash balance, beginning of year		4,000
Cash balance, end of year		3,000

Sometimes, an income statement shows huge net income. But the cash flow statement shows negative cash flow. How can this be?

Cash flow statements show the **inflow** and **outflow** of cash. This includes:

- revenues and expenses
- **cash distributions** to owners
- **dividends** paid to **stockholders**
- **financing activities**

When a sale is made, it often takes months for payment to arrive. A company may have **generated** $500,000 in sales, but only received $100,000 in payment. The income statement counts $500,000 in revenue. But the cash flow statement records only **cumulative** cash – the $100,000 in **proceeds**.

Reading

2 Read the cash flow statement and journal article. Then, mark the following statements as true (T) or false (F).

1 __ Cash flow statements only record cash.
2 __ Dividends are not included in cash flow statements.
3 __ Income statements reflect current status better than cash flow statements.

Vocabulary

3 Match the words (1-5) with the definitions (A-E).

1 __ cash flow
2 __ generate
3 __ proceeds
4 __ financing activities
5 __ cumulative

A receiving money from investors or creditors
B created by incremental additions
C the process of money moving into and out of a company
D to make or create
E money earned from a sale

4 Fill in the blanks with the correct words and phrases from the word bank.

word BANK

inflow stockholder
cash distributions
outflow dividends

1 The company makes _____ to the owners every month.
2 Every _____ owns a tiny portion of the company.
3 Any time money is spent, it is recorded as a(n) _____ .
4 The company pays quarterly _____ to the stockholders.
5 Money received for sales is a(n) _____ of cash.

Pedro Armando Tasayco Díaz
Profesor de Ingles

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5 🎧 **Listen and read the statement and article again. Why might a cash flow statement and an income statement have a big balance difference?**

Listening

6 🎧 **Listen to a conversation between a manager and an accountant. Choose the correct answers.**

1 What is the dialogue mostly about?

A money generated from sales
B accounts receivable payments
C errors on an income statement
D contents of cash flow statements

2 The cash flow statement only counts

A net income C cumulative cash
B sales amounts D accounts receivable

7 🎧 **Listen again and complete the conversation.**

Manager: Hi, David. Could I talk to you for a second?

Accountant: Sure. 1 _____ _____?

Manager: Well, our income statement shows a net income of $200,000.

Accountant: That 2 _____ about right.

Manager: But the cash flow statement shows only $100,000 3 _____ from sales.

Accountant: Oh, well, the cash flow statement only counts cumulative cash – the 4 _____ cash we spend and receive.

Manager: So ... Are you 5 _____ me that we haven't received some of the payments on our accounts receivable?

Accountant: Exactly. But our accounts receivable should 6 _____ _____ for it by next month.

Speaking

8 **With a partner, act out the roles below based on Task 7. Then switch roles.**

USE LANGUAGE SUCH AS:

Could I talk to you for a second?
The cash flow statement only shows ...
The cash flow statement only counts ...

Student A: You are a manager. Talk to Student B about:

- a cash flow statement
- low/high figures
- what the figures mean

Student B: You are an accountant. Answer Student A's questions.

Writing

9 **Use the conversation from Task 8 to complete the email. Make up names for the CPA and Manager.**

FROM: _____ CPA _____

TO: _____ Manager _____

I received your email about the different numbers on the income statement and the cash flow statement. Let me explain why they are different.

_____

_____

_____

_____

Pedro Armando Tasayco Díaz
Profesor de Ingles

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ACTIVITY 6 y 7

Unit 9

Manager (F): Hi, David. Could I talk to you for a second?
Accountant (M): Sure. What's up?
Manager: Well, our income statement shows a net income of $200,000.
Accountant: That sounds about right.
Manager: But the cash flow statement shows only $100,000 generated from sales.
Accountant: Oh, well, the cash flow statement only counts cumulative cash – the actual cash we spend and receive.
Manager: So ... Are you telling me that we haven't received some of the payments on our accounts receivable?
Accountant: Exactly. But our accounts receivable should make up for it by next month.

ACTIVITY 8

A: Hi, James. Could I talk to you for a second?
B: Sure Helen. What's up?
A: Well, our income statement shows a net income of $200,000.
B: That sounds about right.
A: But the cash flow statement shows only $100,000 generated from sales.
B: Oh, well, the cash flow statement only counts cumulative cash – the actual cash we spend and receive.
A: So ... Are you telling me that we haven't received some of the payments on our accounts receivable?
B: Exactly. But our accounts receivable should make up for it by next month.

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Profesor de Ingles

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