GEPM-375
Professional Practices and Construction Management

Cash Flow in Projects

- **What is it?**
- **Importance**
- **Sources of money in cash flow**
- **FCF and Positive cash Flows**
- **Critical Parts of Financial Statement**
- **Cash flow does not necessarily show all the company's expenses.**
- **Types of cash flow**
- **Other Financial Statement with cash Flow:**

Cash Flow:

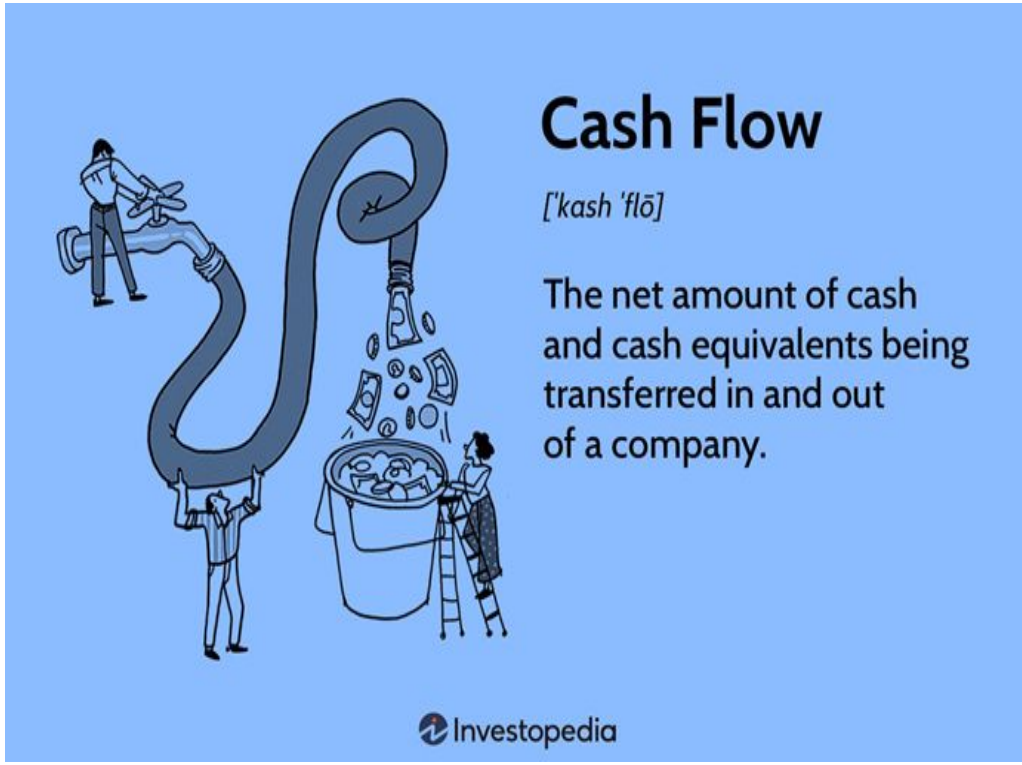
- Refers to the **net amount of cash** and **cash equivalents** being **transferred in and out** of a specific project **over a time**.

- Cash **received** represents **inflows**, while money **spent** represents **outflows.**

Positive Cash Flows: Inflows > Outflows; the project generates more cash than it spends.

Negative Cash Flows: Outflows > Inflows; the project costs more than it brings in during that period, common early on.

Net Cash Flow: Total Inflows - Total Outflows **over a period**.



Working Capital: Funds needed for day-to-day operations, often a key factor in project cash flow

Importance of Cash Flow:

- **Indicates Financial stability and liquidity.**
- **Helps in business growth and investment opportunity.**
- **Indicates Credit worthiness and borrowing capacity**
- Helps in **Decision-making and financial planning.**
- Helps to **Create valuation and investor confidence.**

Sources of Money in Cash Flow:

- Amount of **cash that comes in and goes out** of a company.

Businesses take in **money from sales, as revenues** and **spend money on expenses**.

Money may also receive income from
- interest,
- investments,
- royalties, and licensing agreements and
- sell products on credit, expecting to actually receive the cash owned at a late date.

Assessing the **amounts, timing**, and **uncertainty of cash flows**, along with where they originate and where they go, is one of the **most important objectives of financial reporting.**

It is essential for assessing a company's **liquidity, flexibility**, and **overall financial performance.**

Free Cash Flow:

- Ability to **create value for shareholders** is **fundamentally determined** by its ability to **generate positive cash flows** or, more specifically, to **maximize long-term Free Cash Flow (FCF).**

- FCF is the cash **generated by a company from its normal business operations** after **subtracting all the expenses.**



Positive Cash Flow

- Positive cash flow **indicates that a company's liquidity assets are increasing.**

- Enabling the company to:

  -Cover obligations,
  -Reinvest in its business,
  -Return money to shareholders,
  -Pay expenses, and
  -Provide a buffer against future financial challenges.

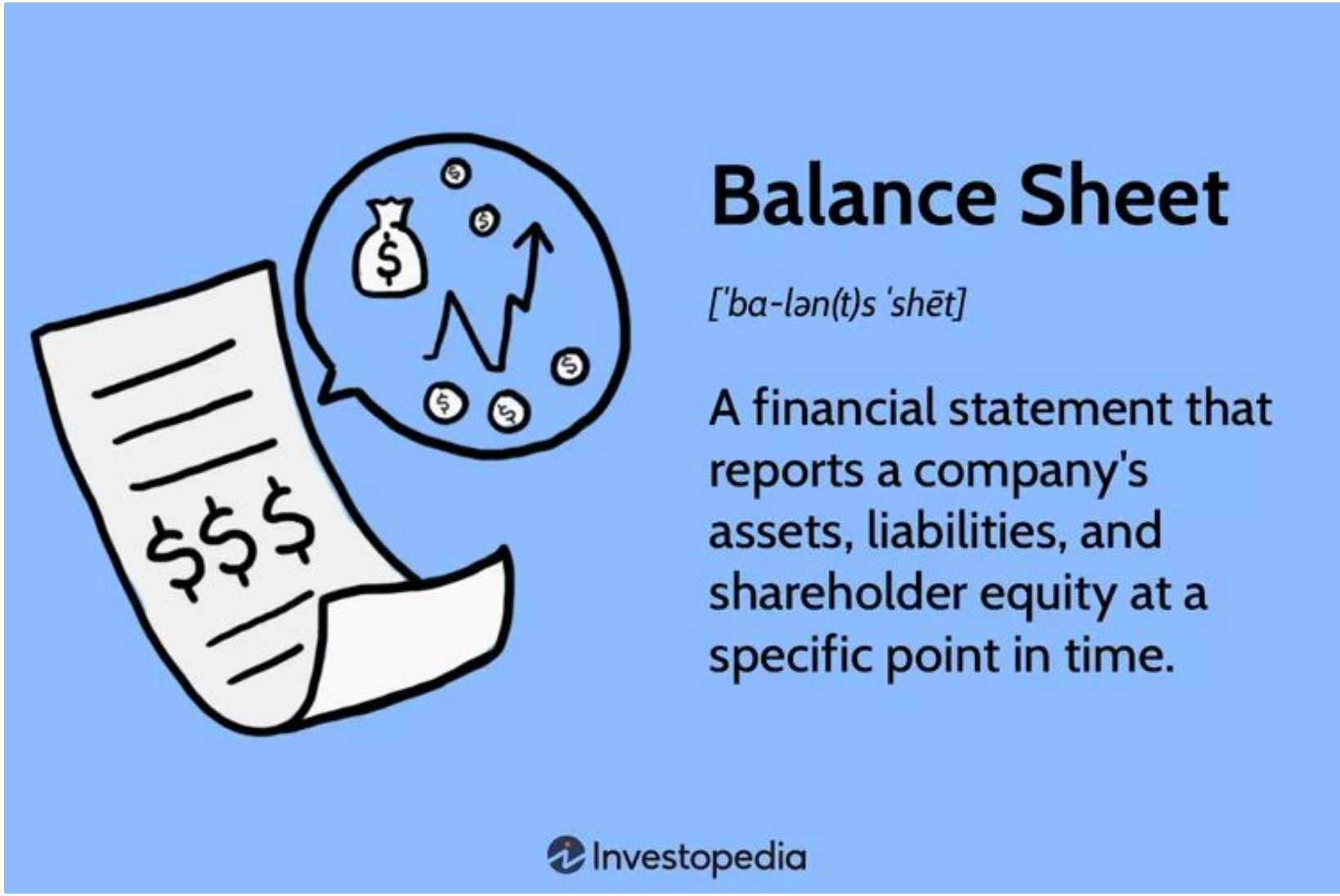
- Companies with **strong financial flexibility** can take **advantage of profitable investments**.

Critical parts of a company's financial statements:

- **A formal record of the financial activities** and **position** of a business/project.

Balance Sheet

- Balance sheet is a **financial statement** that **reports a company's assets, liabilities and shareholder equity** at a specific point in time.



Income Statement

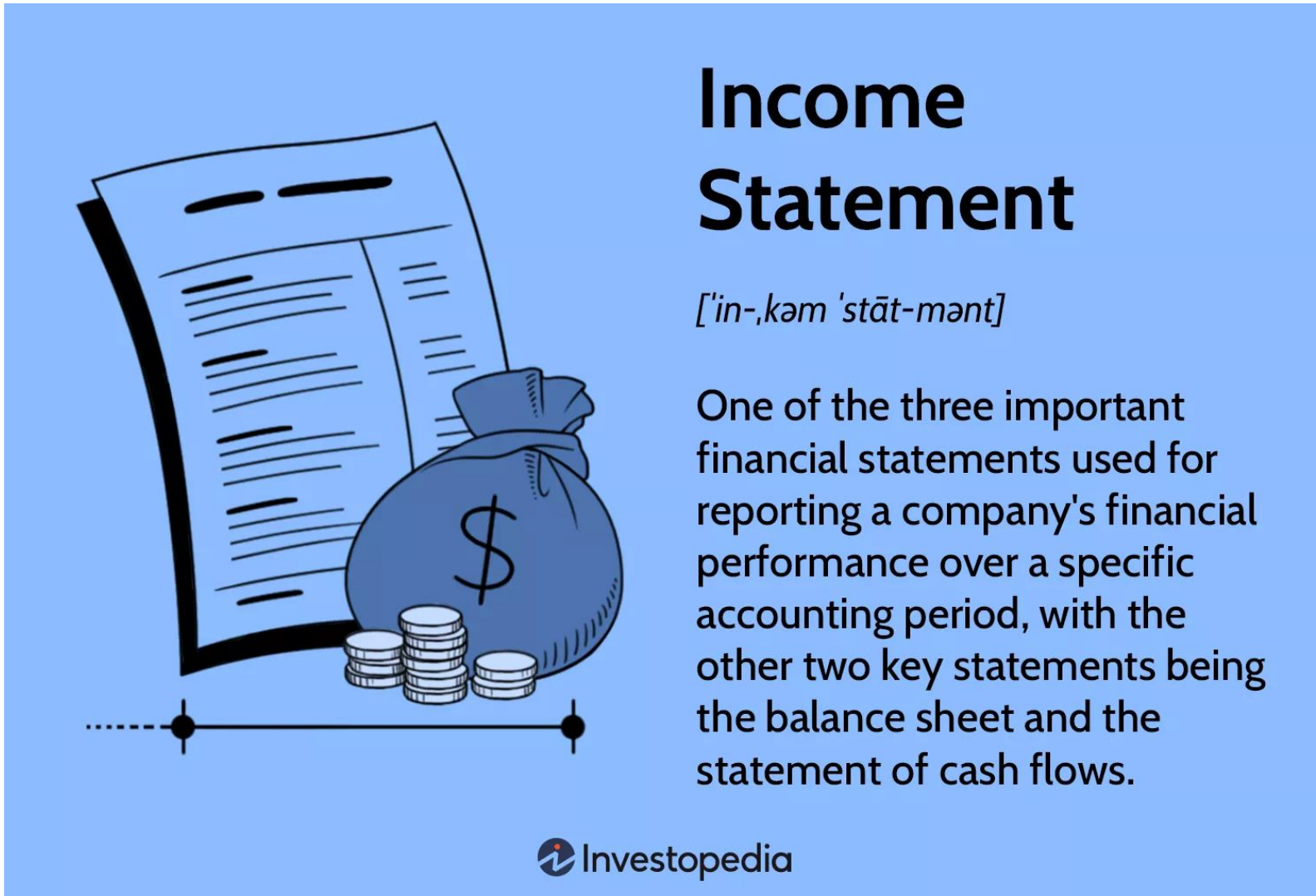
Cash Flow Statement

Income Statement

- An income statement is a **financial report** that shows a company's **revenue**, **expenses**, and **profits & loss** over a **specific accounting period**.

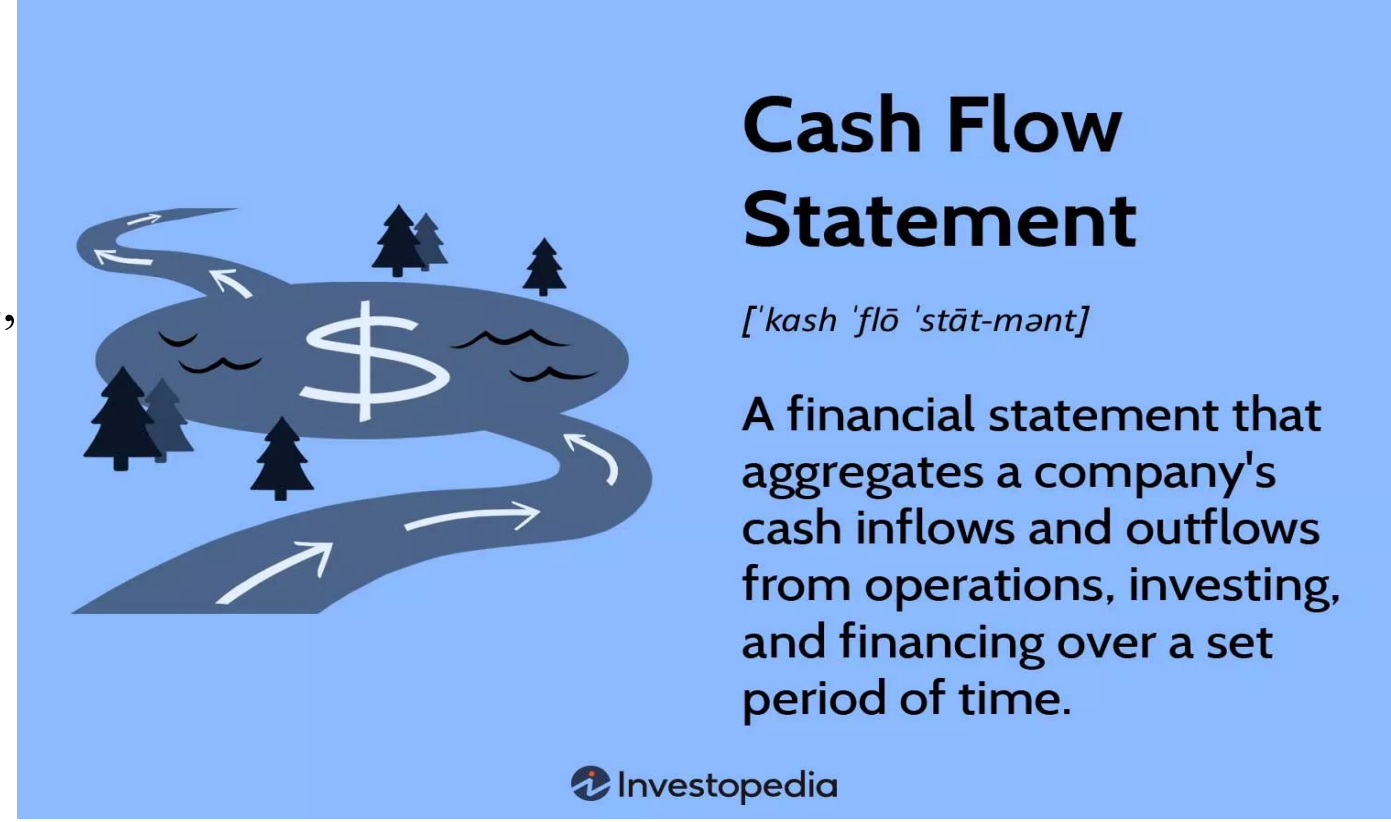
- It's also known as a **profit and loss (P&L) statement**.

- Reports on financial performances.



Cash Flow Statement

- A financial statement that **aggregates a project's inflows and out flows** from operations, investing and financing over a set period of time.



- Cash flows **can be analyzed** using the **Cash Flow Statement**.

One of the **most important financial statements** issued by a company, along with the

- **balance shee**t and
- **income statement**

But the cash flow does not necessarily show all the company's expenses.

- Because **not all expenses the company accrues are paid right away**.
- Although the **company may incur liabilities**, any payments toward these liabilities are not recorded as a cash outflow **until the transaction occurs**.

- This liabilities are likely to be recorded as the **net increase/decrease in Cash and Cash Equivalents** (CCE).
- Reports the **overall change in the company's cash and its equivalents** (the assets that can be immediately converted into cash) over the last period.

Types of Cash Flow

Cash Flows from Operations (CFO)/Operating Cash Flow:

- **Money flows involved directly with the production and sale of goods** from ordinary operations.
- **Indicates** whether or not a company has **enough funds** coming in to pay its bills or operating Expenses.
- Must be **more operating cash inflows than cash outflows** for a company to be financially viable in the long term.
- **Calculated by taking cash received from sales and subtracting operating expenses** that were paid in cash for the period.

Cash Flows From Investing (CFI)/Investing Cash Flow:

•Reports **how much cash has been generated or spent** from various **investment-related activities** in a specific period.

Investment-Related Activities

- Investing activities include **purchases of speculative assets**, **investments in securities**, or **the sale of securities or assets.**

•**Negative cash flow from investing activities** might be due to significant amounts of cash being invested in the long-term health of the company, such as Research and Development(R&D), and is **not always a warning sign**.

Cash Flows From Financing (CFF)/Financing Cash Flow:

•A section of a company's cash flow statement that **shows the net flows of cash that are used to fund the company.**

•Financing activities include **transactions** involving debt, equity, and **dividends**.

• Cash flow from financing activities provide investors with **insight into a company's financial strength** and how well a company's capital structure is managed.

Cash Flow vs. Profit : Contrary to what you may think, **cash flow isn't the same as profit**.

- It isn't uncommon to have these two terms **confused** because they seem very similar.

Cash Flow

- Remember that **cash flow is the money that come in and goes out of a business**.

Profit

- Profit, is specifically used **to measure a company's financial success** or **how much money it makes overall**.
- Amount of money that is **left after a company pays off all its obligations**.
- **Profit is whatever is left** after subtracting a company's expenses from its revenues.

Other Financial Statement with cash Flow:

Using the cash flow statement in conjunction with other financial statements can help **analysts and investors** arrive at various metrics and ratios used **to make informed decisions** and **recommendations**.

•Even **profitable companies can fail** if their operating activities **do not generate enough cash** to stay liquid.

•**This can happen** if **profits are tied up in outstanding account receivable** (AR) and **overstocked inventory**, or **if a company spends too much on capital expenditures** (CapEx).

•Investors and creditors, want to know if the company has **enough CCE** to settle short-term liabilities.

•To see if a company can meet its current liabilities with the cash it generates from operations, **analysts look at the Debt Service Coverage Ratio** (DSCR).

*Debt Service Coverage Ratio = **Net Operating Income / Short-Term Debt Obligations (or Debt Service)***

Example of Cash Flow Statement

Below is a reproduction of **Walmart's cash flow statement** for the fiscal year (FY) ending on Jan. 31, 2019. All amounts are in millions of U.S. dollars.

Walmart Statement of Cash Flows (2019)	
Cash flows from operating activities:	
Consolidated net income	7,179
(Income) loss from discontinued operations, net of income taxes	—
Income from continuing operations	7,179
Adjustments to reconcile consolidated net income to net cash provided by operating activities:	
Unrealized (gains) and losses	3,516
(Gains) and losses for disposal of business operations	4,850
Depreciation and amortization	10,678
Deferred income taxes	(499)
Other operating activities	1,734
Changes in certain assets and liabilities:	
Receivables, net	(368)
Inventories	(1,311)

Cash Flow Example

Accounts payable	1,831
Accrued liabilities	183
Accrued income taxes	(40)
Net cash provided by operating activities	27,753
Cash flows from investing activities:	
Payments for property and equipment	(10,344)
Proceeds from the disposal of property and equipment	519
Proceeds from the disposal of certain operations	876
Payments for business acquisitions, net of cash acquired	(14,656)
Other investing activities	(431)
Net cash used in investing activities	(24,036)

Cash Flow Example

Cash flows from financing activities:	
Net change in short-term borrowings	(53)
Proceeds from issuance of long-term debt	15,872
Payments of long-term debt	(3,784)
Dividends paid	(6,102)
Purchase of company stock	(7,410)
Dividends paid to noncontrolling interest	(431)
Other financing activities	(629)
Net cash used in financing activities	(2,537)
Effect of exchange rates on cash and cash equivalents	(438)
Net increase (decrease) in cash and cash equivalents	**742**
Cash and cash equivalents at beginning of year	**7,014**
Cash and cash equivalents at end of year	**7,756**

What we have discussed today

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Thanks