

5. Statement of Cash Flows Analysis

Table 9. Consolidated Statements of Cash Flows

THE COCA-COLA COMPANY			
CONSOLIDATED STATEMENTS OF CASH FLOWS			
Year Ended December 31,	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
OPERATING ACTIVITIES			
CONSOLIDATED NET INCOME	7 124	8 626	9 086
Depreciation and amortization	1 976	1 977	1 982
Stock-based compensation expense	209	227	259
Deferred income taxes	-40	648	632
Equity (income) loss - net of dividends	-371	-201	-426
Foreign currency adjustments	415	168	-130
Significant (gains) losses on sales of assets - net	831	-670	-98
Other operating charges	761	465	166
Other items	149	234	254
Net change in operating assets and liabilities	-439	-932	-1 080
Net cash provided by operating activities	10 615	10 542	10 645
INVESTING ACTIVITIES			
Purchases of investments	-17 800	-14 782	-14 824
Proceeds from disposals of investments	12 986	12 791	7 791
Acquisitions of businesses, equity method investments and nonmarketable securities	-389	-353	-1 486
Proceeds from disposals of businesses, equity method investments and nonmarketable securities	148	872	20
Purchases of property, plant and equipment	-2 406	-2 550	-2 780
Proceeds from disposals of property, plant and equipment	223	111	143
Other investing activities	-268	-303	-268
Net cash provided by (used in) investing activities	-7 506	-4 214	-11 404
FINANCING ACTIVITIES			
Issuances of debt	41 674	43 425	42 791
Payments of debt	-36 962	-38 714	-38 573
Issuances of stock	1 532	1 328	1 489
Purchases of stock for treasury	-4 162	-4 832	-4 559
Dividends	-5 350	-4 969	-4 595
Other financing activities	-363	17	100
Net cash provided by (used in) financing activities	-3 631	-3 745	-3 347
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	-934	-611	-255
CASH AND CASH EQUIVALENTS			
Net increase (decrease) during the year	-1 456	1 972	-4 361
Balance at beginning of year	10 414	8 442	12 803
Balance at end of year	8 958	10 414	8 442

Source: Form 10K of Coca-Cola Company for the fiscal year ended December 31.

The cash flow statement is the most important financial statement. The cash flow statement determines the firm's cash inflows (receipts) and cash outflows (expenditures). Cash is received or paid. It is not possible to manipulate with cash inflows and cash outflows. The accounting principles may only require the form of presentation of cash flows.

The statement of cash flow classifies cash inflows and cash outflows into **operating, investing and financing activities**. In brief, in accounting operating activities involve income statement items and changes in current assets and changes in current liabilities. Investment cash flows result from changes in long term assets (new purchases and disposal). Financial cash flows include new issues of equity and dividend payments, new bond issues (or new long-term loans), repayments of bonds (or long-term loans) and interest payments.

The total balance of cash flow statement shows the cash deficit or cash surplus for the current period. **It is not very important.** It is usually small positive or small negative number. Of course, cash presented in a balance sheet must be positive.

So, what is important ? A sound company (without investment activities) should show **positive and growing cash flows from operating activities**. A company showing negative and declining operating cash flows is a potential bankrupt in the nearest future. Cash flow statement provides information about liquidity in operating terms. A company with positive and growing cash flows from operating activities has a better liquidity in operating terms (not from financial sources).

A company starting a business with huge investments financed with internal and external sources of finance may show no cash inflows from operating activities, huge investment cash outflows and also huge cash inflows from financing activities.

A company will occasionally have investing and financing activities that do not involve cash flows. For example, a company may acquire a building in exchange for common stock. The conversion of bonds into common stocks has no effect on cash flows. Such transactions should be revealed separately.

A pro forma (forecasted) statement of cash flows is the most important instrument of cash management (liquidity management).

Cash flows used in the accounting statement of cash flows are different from cash flows in financial management (to discussed during next lecture).

5.1 Operating Activities

Operating activities include net income, depreciation and changes in net current assets (inventories, accounts receivable and current liabilities). Short-term investments (purchases of shares) are excluded and treated as investing activity. Short-term loans are also excluded and treated as financing activity.

The operating activities part may be presented using the **indirect method** or **direct method**. Cash flows from investing activities and cash flows from financing activities are the same in both methods. The indirect method is sometimes referred to as the reconciliation method. The indirect method is more suitable as it allows for quick comparison of net income and depreciation with cash flows from operating activities.

If a company uses the direct method, it usually presents a reconciliation of net earnings to net cash provided by operating activities in a separate schedule.

5.2 Investing Activities

Investing outflows include purchase of plant, intangible assets and equipment, but also purchase of debt and equity securities of other entities (long and short !!! term investments). Cash inflows include receipts from sale of plant and equipment, interest and dividends received and proceeds from sale of debt and securities of other entities.

5.3 Financing Activities

Financing inflows include proceeds from (new issued) sale of equity securities and sale of bonds or notes by the company, and also long or short-term borrowings. Outflows include dividend payments, interest payments, and repayments of loans or bonds.

5.4 Development of the Statement of Cash Flows

Cash inflows and outflows are determined by analyzing changes in all balance sheet accounts. Decreases in assets and increases in equity and liabilities increase cash. Increases in assets and decreases in equity and liabilities decrease cash.

As the balance sheet does not show all changes in cash flows, it is necessary to make adjustments. Adjustments may include depreciation, dividends, interest payments and other accounts.

Task 5

Insert sheet Cash Flow Statement from a file Financial_Report.xlsx into the worksheet named AllTasks.xlsx and name it "Cash".

Read all the cash flow statement items. Be sure to understand all items. Most of them are explained in my Teaching Notes.

1. Show sources and uses of cash based on the balance sheet changes.
2. Show condensed balance sheet. Calculate and discuss investments and sources of finance.
3. Calculate net operating, investment and financing cash flows based on the balance sheet changes.

What is wrong with these cash flows ?

4. Show cash flows based on balance sheet changes adjusted for depreciation and dividends.
5. Show the structure of overall cash inflows and cash outflows.

Table ?

Sources of cash:

1. Decreases in assets.
2. Increases in Equity, LT Debt and Current Liabilities

Uses of cash:

1. Increases in assets.
2. Decreases in Equity, LT Debt and Current Liabilities.

Problem 7. Sources and Uses of Cash

	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	1 456	-1 972	4 361
Short-term investments	-2 345	-1 690	-3 929
TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
Marketable securities	-518	-55	-2 948
Trade accounts receivable, less allowances of \$61 and \$53, respectively	407	-114	161
Inventories	177	-13	-172
Prepaid expenses and other assets	-180	-105	669
Assets held for sale	-679	2 973	-2 973
TOTAL CURRENT ASSETS			
EQUITY METHOD INVESTMENTS	446	-1 177	-1 983
OTHER INVESTMENTS, PRINCIPALLY BOTTLING COMPANIES	-2 559	113	-91
OTHER ASSETS	254	-1 076	-90
PROPERTY, PLANT AND EQUIPMENT - net	334	-491	463
TRADEMARKS WITH INDEFINITE LIVES	211	-217	-97
BOTTLERS' FRANCHISE RIGHTS WITH INDEFINITE LIVES	726	-10	365
GOODWILL	212	-57	-36
OTHER INTANGIBLE ASSETS	90	10	100
TOTAL ASSETS			
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	-343	897	-329
Loans and notes payable	2 229	604	3 426
Current maturities of long-term debt	2 528	-553	-464
Accrued income taxes	91	-162	109
Liabilities held for sale	58	-796	796
TOTAL CURRENT LIABILITIES			
LONG-TERM DEBT	-91	4 418	1 080
OTHER LIABILITIES	891	-1 970	48
DEFERRED INCOME TAXES	-516	1 171	287
THE COCA-COLA COMPANY SHAREOWNERS' EQUITY			
Common stock, \$0.25 par value; Authorized - 11,200 shares; Issued - 7.	0	0	0
Capital surplus	878	897	1 047
Reinvested earnings	1 748	3 615	4 424
Accumulated other comprehensive income (loss)	-2 345	-47	-611
Treasury stock, at cost - 2,638 and 2,571 shares, respectively	-3 134	-4 082	-3 705
EQUITY ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY			
EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-26	-111	92
TOTAL EQUITY			
TOTAL LIABILITIES AND EQUITY			

Problem 8. Investments and Sources of Finance

Required:			
Show condensed balance sheet. Calculate investments and sources of finance.			
Solution			
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Long-term Assets	59 037	58 751	55 846
Net Current assets without cash and cash equivalents	-8 346	-6 921	-5 935
Cash and cash equivalents	8 958	10 414	8 442
Total	59 649	62 244	58 353
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Equity	30 561	33 440	33 168
LT Debt	29 088	28 804	25 185
Total	59 649	62 244	58 353
Investments and Sources of Finance	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Investments (positive numbers - cash is decreased). Sources of Finance (negative numbers)			
Δ Long-term Assets	286	2 905	1 369
Δ (CA- CL)	-1 425	-986	5 654
Δ Cash and cash equivalents	-1 456	1 972	-4 361
Total	-2 595	3 891	2 662
Sources of Finance (positive numbers - cash is increased). Investments (negative numbers)			
Δ Equity	-2 879	272	1 247
Δ LT Debt	284	3 619	1 415
Total	-2 595	3 891	2 662

Problem 9. Cash Flows based on the Balance Sheet changes

Required:			
(a) Calculate net operating, investing and financing cash flows based on the balance sheet changes.			
What is wrong with these cash flows ?			
(b) Discuss the structure of cash flows and increase in cash.			
Solution			
(a)			
Cash flows based on balance sheet			
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Operating	1 425	986	-5 654
Investing	-286	-2 905	-1 369
Financing	-2 595	3 891	2 662
Increase in Cash	-1 456	1 972	-4 361
What is wrong ?		Adjustments	
Operating. This item shows only changes in current assets and current liabilities. It does not show net income and depreciation.		Add Net Income	
		Add Depreciation	
		Add Interest Expense	
		Deduct Interest Income	
		Deduct Other Income	
Investing. The ending value of fixed assets is lower by depreciation. To show true value of investment cash flows depreciation should be added to operating cash flows and deducted from investing cashflows.		Deduct Depreciation	
		Add Interest Income	
		Add Other Income	
Financing. The ending value of equity includes retained earning (net income - dividends). Net income should be added to operation cash flows and excluded from financing activities.		Deduct Net Income	
		Show Dividends as separate item	
		Deduct Interest Expense	

Problem 10. Cash Flows adjusted for Depreciation and Dividends

Required:			
Show cash flows based on balance sheet changes adjusted for depreciation and dividends.			
Solution			
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Operating activities			
Net income	7 124	8 626	9 086
Depreciation and amortization	1 976	1 977	1 982
Δ (CA- CL)	1 425	986	-5 654
Net cash provided by operating activities	10 525	11 589	5 414
Investment activities			
Net cash provided by (used in) investing activities	-2 262	-4 882	-3 351
Financing activities			
Increase in Equity	-4 653	-3 385	-3 244
Dividends	-5 350	-4 969	-4 595
Δ LT Debt	284	3 619	1 415
Net cash provided by (used in) financing activities	-9 719	-4 735	-6 424
Total	-1 456	1 972	-4 361
Decrease in Equity (purchases of own shares) and huge dividends mean that the shareholders withdraw almost all operating cash from the company.			
New purchases of fixed assets are mostly financed by LT Debt.			
True Statement of cash flows			
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
Operating	10 615	10 542	10 645
Investing	-7 506	-4 214	-11 404
Financing	-3 631	-3 745	-3 347
Exchange Rate	-934	-611	-255
Net increase (decrease) during the year	-1456	1972	-4361

Problem 11. Overall Cash Inflows and Cash Outflows

Required:			
Calculate all operating, investing and financing cash inflows and cash outflows.			
Discuss the structure of such problem.			
Solution			
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
CASH INFLOWS			
OPERATING ACTIVITIES	11 465	12 345	12 379
INVESTING ACTIVITIES	13 357	13 774	7 954
FINANCING ACTIVITIES	43 206	44 770	44 380
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH I	0	0	0
Total	68 028	70 889	64 713
CASH OUTFLOWS			
OPERATING ACTIVITIES	-850	-1 803	-1 734
INVESTING ACTIVITIES	-20 863	-17 988	-19 358
FINANCING ACTIVITIES	-46 837	-48 515	-47 727
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH I	-934	-611	-255
Total	-69 484	-68 917	-69 074
	<i>Dec. 31, 2014</i>	<i>Dec. 31, 2013</i>	<i>Dec. 31, 2012</i>
CASH INFLOWS			
OPERATING ACTIVITIES	17%	17%	19%
INVESTING ACTIVITIES	20%	19%	12%
FINANCING ACTIVITIES	64%	63%	69%
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH I	0%	0%	0%
	100%	100%	100%
CASH OUTFLOWS			
OPERATING ACTIVITIES	1%	3%	3%
INVESTING ACTIVITIES	30%	26%	28%
FINANCING ACTIVITIES	67%	70%	69%
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH I	1%	1%	0%
	100%	100%	100%