Session 4: Post class test solutions

1. **c. Start with Net Income and add back depreciation, amortization and other non-cash charges.** The statement of cashflows is constructed from the perspective of equity investors and it starts with net income, not EBITDA or operating income.
2. **a. Increases in inventory decrease cash flows and increases in accounts payable increase cash flows.** An increase in inventory ties up cash flows, but an increased use of supplier credit (accounts payable) releases cash flows.
3. **c. Cash-based acquisitions and cash portion of mixed acquisitions.** It is a statement of cash flows. So, only cash spent on acquisitions, in part or in full, show up under investing.
4. **d. Cash dividends, all share buybacks.** Stock dividends have no cash effect and all stock buybacks, no matter what the motive, are going to be cash outflows.
5. **b. Negative cash flow from operations, Negative cash flow from investing and Positive cash flow from financing.** Young companies generally lose money and have little depreciation to add back, as well as substantial investment needs (to deliver future growth). These cash outflows all have to be funded with cash infusions from financing (mostly from equity).