

# Cash Flow Statement Explained: A Complete Guide

For South African Businesses

---

- ✓ What a cash flow statement shows and why it matters
- ✓ How to read all 3 sections without getting lost in jargon
- ✓ Direct vs Indirect method explained with a real SA example

## What Is a Cash Flow Statement?

A cash flow statement captures the movement of cash and cash equivalents over a set period. It shows the sources of cash, the uses of cash, and the net change in the closing balance. Unlike the income statement, it tracks actual money moving in and out — not revenues or expenses merely recorded on paper. A business can look profitable on paper and still face a cash shortage.

**DID YOU KNOW:**

In the Federal Reserve's 2024 Business Payments Study, 92% of businesses said cash flow improvement was one of their top priorities.

### What a Cash Flow Statement Reveals About Your Business

- The main source of cash — whether from operations, loans, or owner contributions
- Slow customer collections, growing stock purchases, or heavy capital spending
- Regular debt repayments putting pressure on available cash
- Whether the business is self-funding or increasingly reliant on outside money

## The 3 Core Sections of a Cash Flow Statement

1

### Operating Activities

Cash from Day-to-Day Business

Covers cash received from customers and cash paid for suppliers, wages, rent, utilities, and taxes. The first section most owners look at — it shows whether the core business is actually generating cash on its own.

2

### Investing Activities

Cash Used for Growth

Long-term spending and asset transactions: machinery, equipment, or software purchases appear as outflows; proceeds from selling assets appear as inflows. Negative cash here is not always a warning — it may mean the business is investing for the future.

3

### Financing Activities

Cash from or to Owners & Lenders

Shows how the business raises and repays money. Loan receipts, owner contributions, and share issues are inflows; repayments, dividends, and owner withdrawals are outflows. Helps indicate how much the business depends on outside funding.

## Direct vs Indirect Cash Flow Method

Both methods produce the same final result. Only the operating activities section is presented differently — the investing and financing sections remain identical either way.

Basis	Direct Method	Indirect Method
Starting point	Actual cash receipts and payments	Net profit adjusted for non-cash items & working capital changes
Operating view	Shows cash collected from customers and cash paid for expenses	Reconciles accounting profit to operating cash flow
Ease of preparation	Requires detailed cash-level records	Easier with standard accrual-based records
Best for	Clear day-to-day cash visibility	Standard reporting & easy reconciliation
Result	Net cash from operating activities	Net cash from operating activities

## Example: A Simple Cash Flow Statement

Simple Cash Flow Statement Example	Amount (R)
<b>OPERATING ACTIVITIES</b>	
Cash received from customers	485,000
Cash paid to suppliers and employees	(332,000)
Taxes paid	(18,000)
<b>Net cash from operating activities</b>	<b>135,000</b>
<b>INVESTING ACTIVITIES</b>	
Purchase of equipment	(65,000)
<b>Net cash from investing activities</b>	<b>(65,000)</b>
<b>FINANCING ACTIVITIES</b>	
Loan received	40,000
Loan repaid	(12,000)
<b>Net cash from financing activities</b>	<b>28,000</b>
<b>NET INCREASE IN CASH</b>	<b>90,000</b>
Opening cash balance	72,000
<b>CLOSING CASH BALANCE</b>	<b>170,000</b>

## How to Read a Cash Flow Statement

Follow cash movement through all three sections — don't just look at the closing balance. Start with operating cash, then review investments, then check whether financing is helping the business grow or just plugging a gap.

**Strong operating cash flow:** Points to better collections and tighter control over spending.

**Large investment outflows:** May be positive if they support future growth — context matters.

**Repeated financing inflows:** Without strong operating cash, this may signal ongoing pressure.

## Cash Flow vs Income Statement vs Balance Sheet

Statement	Main Focus	Key Question It Answers
Cash Flow Statement	Actual cash inflows & outflows	Where did cash come from and where did it go?
Income Statement	Revenue, expenses & profit	Was the business profitable?
Balance Sheet	Assets, liabilities & equity	What is the financial position right now?

**DID YOU KNOW?**

### South Africa Cash Flow By The Numbers

**92%**

of businesses listed cash flow improvement as a top priority  
Source: Federal Reserve, 2024

**56%**

of firms found operating expenses hard to manage.  
Source: Small Business Credit Survey

**51%**

of small businesses reported uneven cash flow patterns.  
Source: Small Business Credit Survey

**80%**

of small firms face customer-payment-related challenges.  
Source: Federal Reserve Research

### Get Better Visibility Into Cash Movement With VasyERP

Track collections, payments, and financial records in one place for better control.

[Schedule a Free Demo →](#)