CALIFORNIA · STATE-AWARE GUIDE

# How to complete a Cash Flow Statement in California

Statement of Cash Flows with Direct or Indirect method toggle — bank-ready line items for operating, investing, and financing activities.

## What this form is for

Banks require a Statement of Cash Flows to see how your business generates and uses cash across operating, investing, and financing activities during a specific period, typically the past fiscal year. This form complements your balance sheet and income statement by showing liquidity and cash management, not just profitability on paper.

## Before you start

- Your completed balance sheet for the beginning and end of the reporting period
- Your income statement (profit and loss) for the same period
- General ledger or accounting software export showing all transactions categorized by type
- Documentation of any loan proceeds received, principal repayments made, equipment purchases, or owner draws during the period
- Decision on which method you'll use: indirect (starts with net income and adjusts) or direct (lists actual cash receipts and payments)

## Step-by-step

1. Choose your reporting method at the top of the form. Most small businesses use the indirect method because it's easier if you keep accrual-basis books. Direct method requires tracking every cash transaction but gives banks clearer visibility into actual cash sources.

2. Complete the Operating Activities section. For indirect method, start with net income from your income statement, then add back non-cash expenses like depreciation and amortization. Adjust for changes in current assets and liabilities—subtract increases in accounts receivable or inventory, add increases in accounts payable.

3. Fill in the Investing Activities section. Report cash spent purchasing equipment, property, or other long-term assets as negative numbers. Record any proceeds from selling assets as positive. Include security deposits paid or returned.

4. Complete the Financing Activities section. List loan proceeds received, principal payments made on debt, owner contributions as positive, and owner draws or dividend payments as negative. California banks pay close attention to owner equity movements here.

5. Sum each of the three sections to arrive at subtotals for operating, investing, and financing cash flow.

6. Add the three subtotals together to calculate the net increase or decrease in cash for the period.

7. Verify this net change by adding it to your beginning cash balance (from your opening balance sheet) and confirming it matches your ending cash balance (from your closing balance sheet). This reconciliation proves accuracy.

8. Attach a brief note explaining any large or unusual line items, such as one-time asset sales or major capital expenditures.

## What lenders look for

- Banks focus most on operating cash flow—it should be positive and strong enough to cover debt service. Negative operating cash flow raises red flags even if you're profitable on paper.

- Don't hide financing activity. Show all owner draws, related-party loans, and equity injections transparently. California lenders scrutinize personal guarantees and commingling of personal and business funds.

- Common mistake: forgetting to reconcile your calculated ending cash to the actual bank balance. Mismatches signal poor bookkeeping or unrecorded liabilities.