PENNSYLVANIA · STATE-AWARE GUIDE

How to complete a Cash Flow Statement in Pennsylvania

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

This form shows lenders exactly how cash moved in and out of your business over a specific period, separating operating activities, investing activities, and financing activities. Banks use it to evaluate your liquidity, assess whether you generate enough cash from operations to service debt, and verify that your balance sheet and income statement tie together correctly.

Before you start

- Your completed income statement and balance sheet for the same period you're reporting
- Bank statements covering the full period to verify opening and closing cash balances
- Records of any equipment purchases, asset sales, loan proceeds, or loan repayments during the period
- Documentation of owner contributions or distributions
- Your prior period balance sheet to calculate changes in working capital accounts

Step-by-step

1. Choose your method at the top of the form. The indirect method starts with net income and adjusts for non-cash items; the direct method lists actual cash receipts and payments. Most small businesses use indirect because it's easier to prepare from your existing financials.

2. In the Operating Activities section, start with net income from your income statement. Add back non-cash expenses like depreciation and amortization.

3. Calculate changes in working capital by comparing this period's balance sheet to last period's. Increase in accounts receivable is a use of cash (subtract it). Decrease in inventory is a source of cash (add it). Increase in accounts payable is a source (add it). The form will guide you through each line item.

4. Total your Operating Activities section. This number tells lenders whether your core business generates or consumes cash.

5. In Investing Activities, list cash spent on equipment, property, or other long-term assets as negative numbers. List any proceeds from selling assets as positive numbers.

6. In Financing Activities, record loan proceeds received, loan principal repayments (not interest—that's operating), owner capital contributions, and distributions or dividends paid.

7. Sum all three sections. The net change in cash must match the difference between your beginning and ending cash balances on your balance sheet.

8. Verify that your ending cash balance ties exactly to the cash line on your current balance sheet. If it doesn't, recheck each section for errors.

What lenders look for

- Positive operating cash flow is critical. Banks worry if you're consistently cash-flow-negative from operations even when showing accounting profits, because it suggests collection problems or unsustainable working capital needs.

- Large unexplained swings in working capital raise red flags. Be ready to explain seasonal patterns or one-time events like a major inventory purchase.

- Under Pennsylvania lending standards, make sure any shareholder loans or related-party transactions in the Financing section are properly documented with promissory notes, as banks will scrutinize informal arrangements closely during underwriting.