

# How to complete a Cash Flow Statement in Texas

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 how cash moved in and out of your business over a specific period, proving you can generate cash to service debt. Banks require it alongside your balance sheet and income statement to assess liquidity and repayment capacity.

## Before you start

- Your completed income statement and balance sheet for the same period (usually twelve months or quarter-to-date)
- Bank statements showing beginning and ending cash balances for the reporting period
- Records of any equipment purchases, loan proceeds, owner contributions, or dividend distributions during the period
- Depreciation and amortization totals from your income statement or fixed-asset schedule
- Details of any changes in accounts receivable, inventory, accounts payable, and accrued expenses between the start and end dates

## Step-by-step

1. Choose your method at the top of the form: Indirect (starts with net income and adjusts for non-cash items) or Direct (lists actual cash receipts and payments). Most small businesses use Indirect because it is faster if you already have an income statement.
2. Enter your reporting period dates and confirm your beginning cash balance matches your balance sheet and bank records from the period start date.
3. Complete the Operating Activities section. If using Indirect, start with net income from your income statement, then add back depreciation and amortization. Adjust for changes in working capital accounts: subtract increases in receivables and inventory, add increases in payables and accruals.
4. Fill in Investing Activities with cash spent on property, equipment, or other long-term assets, and any proceeds from asset sales. Use negative numbers for purchases, positive for sales proceeds.
5. Document Financing Activities including loan proceeds received, principal payments made, owner capital contributions, and any draws or dividends paid out. Texas banks often scrutinize owner distributions closely to ensure debt service comes first.
6. Sum all three sections to calculate your net increase or decrease in cash, then add your beginning cash balance to arrive at ending cash. This ending figure must match your balance sheet and current bank statement.

7. Review the entire statement for math errors. Many forms auto-calculate subtotals, but verify each section ties to source documents.

## What lenders look for

- Positive operating cash flow is critical. Lenders want to see your core business generates cash without relying on loans or owner infusions, proving you can cover debt payments from operations.
- Reconcile your ending cash balance precisely to bank statements. Mismatches raise red flags and delay approvals.
- Avoid showing large unexplained swings in working capital or frequent negative operating cash flow across multiple periods, which signal collection problems or poor expense control.