SUMMING UP

We are now at the end of a long journey that pulled us through nearly every aspect of corporate finance. In an effort to explain cash flow, it was necessary to explore many aspects of its environment. During our voyage, we considered not only the definition of cash flow but also its importance within financial theory. We also dissected its place in financial reporting, which forced us to discuss the surroundings. Along the way, we discovered the ability to represent cash flow using the Actual Cash Flow system. This was not an idle excursion. In fact, this exploration broadened our understanding of the very foundations of finance.

We began in Chapter 1 with a critical examination of corporate finance. While inspecting the Information Gap, two things became clear. First, cash flow is integral to measurements of a firm's profitability, value, and stability. Second, a clear vision to cash is not commonly available in today's finance department. These two conflicting realities complicate the firm's managerial objective—that is, producing wealth for its stakeholders—and allows the Information Gap to grow.

In Chapter 2, we charted the mechanics of cash flow and outlined its functional relationships. This chapter introduced distinct components of the operating funds flow cycle, delineating operating cash investments and cash returns from the cash flows and balances residing within the firm's capital structure. This pictorial introduced the structure of Actual Cash Flow.

Chapter 3 explained why today's common measurements of cash flow are misguided. Therein, we reviewed the statement of cash flows found within financial reporting along with the metrics known as EBITDA and Free Cash Flow. Each were found lacking as a meaningful insight to cash activity, were deemed constricted by the rules of accrual accounting, and were labeled inefficient as an internal management tool. With this information, we realized that it's backward to use such engineered measures of cash flow to present activity that is readily available at its source.

In Chapter 4 we learned the basics of reporting cash flow using the Actual Cash Flow system. We gained the tools to understand not only the administrative functionality of cash flow but also the nonmalleable nature of cash. The resulting reporting structures laid the groundwork for simple cash analysis.

Our trek turned uphill in Chapters 5 and 6 when we realized that complex financial structures can obstruct an elementary vision to cash. We learned that it is important to understand the purpose of individual cash movements and balances in order to decipher their implications for the firm's funds flow cycle. In Chapter 5, we pursued a deeper knowledge of securitization structures, pension plans, and acquisitions. And in Chapter 6, we scrutinized procure to pay systems, the equity method, hedging, employee stock options, and leasing. Through these detailed reviews of complex financial activities, we recognized that a valid vision to cash can be built only by using the true cash flow of a particular transaction while respecting the underlying legal realities of each situation.

Chapter 7 took our adventure global. Up to that point, we had focused on single-currency cash flows. We had not considered that while cash is inherently nonmalleable, its value can instantaneously change when viewed cross-border. So Chapter 7 allowed us to wade through the complications of reporting multicurrency cash flow. The effort rewarded us with a deeper comprehension of foreign currency transaction and translation exposure, which in turn provided more ammunition to analyze a firm's profitability, value, and stability.

The internal management tool that is Actual Cash Flow, though, is not fully functional without cash forecasting. Financial managers can complete the journey to understanding cash flow by building basic Actual Cash Flow reporting. But they cannot interpret the information without comparing it to their expectations. Chapter 8 therefore explained the foundations for evaluating cash flow performance by providing a framework for building cash flow forecasts. It was through Chapter 8 that we discovered that cash forecasting is not about perfectly predicting future cash flow but instead exists for identifying the *possibilities* for cash flow.

These eight chapters were an adventure in finance. We did not go far before seeing that knowledge of cash is vital to the workings of corporate finance. Cash flow sits behind the very nature of profitability; it defines stability; and is the key quantifier for firm value. Understanding real cash flow is therefore important to the financial profession. But true cash flow can be elusive without guidance.

This book offers the Actual Cash Flow system to build that vision to cash. Through Actual Cash Flow, financial managers will advance their knowledge of firm value as they are able to confirm that accrued profits are actually realized in tangible economic income. This visibility will in turn clarify the risks surrounding value creation as the realities of elusive NOCR are compared to cash invested at the Capital Base. It is through the observable elements of the Actual Cash Flow system, then, that the financial profession will close the Information Gap.