

## CASH FLOW

Net Sales = Turnover = Gross Income = Price per unit times number of units sold

PBIT = Profit Before Interest and Tax = Net Sales minus Costs (fixed and Variable) minus depreciation. Note that we are treating depreciation as if it were an expense. What we are doing is hiding part of our profits with the blessing with the Tax Office. The depreciation allowance is not really 'gone'...we just make sure it doesn't get taxed. In our example we do not have any interest payments.

NOPAT = Net Operating Profit After Tax = PBIT minus Tax. This is known as the 'Bottom Line' as it is the last entry on the Income Statement (Profit & Loss Account).

### Adjustments

- (a) For years 1 thru 5 we have to add back the 'hidden' depreciation allowance because it represents real cash.
- (b) For Year 0 (i.e. the beginning of year 1) we have to deduct the Capital Expenditure (note the negative sign because it is a cash outflow.)
- (c) For Year 5 we have to add the salvage value of the plant (note the positive sign as it is a cash inflow).
- (d) The Net Cash Flow for each column is now simply the NOPAT plus the adjustments for that period.
- (e) The Cumulative Cash flow is easy to calculate. For period 0 it is equal to the Net Cash Flow for period 0. For period 1 it is = the cumulative Cash Flow for period 0 plus the Net Cash Flow for period 1. For period 2 it is = the cumulative Cash Flow for period 1 plus the Net Cash Flow for period 2. And so on.