***Please provide a peer response with references. 200 to 500 words.***

**2. Why are retained earnings not considered an asset of the firm?**

Answer 2. The retained earnings is not an asset because it is considered a liability to the firm. The retrained earnings is an amount of money that the firm is setting aside to pay stockholders is case of a sale out or buy out of the firm. The holdings do not indicate a decision to buy or sale, simply a way to manage risk to the stockholders in the event of a buy or sale. Consequently, the retained earnings is a stockholder’s equity.

**3. How does net cash flow differ from net income and why?**

Answer 3. Net income is a balanced result of total revenues made for the firm minus the total expenses incurred by the firm. If the result is positive, then the firm has made a profit. If the result is negative, then the firm has a loss. On the contrary, cash flows are generated from the sale of goods and services. The net cash flow is when the costs of running the firm are subtracted from the sale of goods and services. Net cash flow is a basically a measure of the amount of movement cash has entered and left the firm. Cash flows center about understanding the operating activities, long-term investing activities and financing activities.