

EMBA5401 Accounting

Statement of Cash Flows
Back to cash basis accounting?

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Cash Receipts vs. Cash Payments

- Provides an overview of what happened to Cash
- Ability to generate CF?
- Ability to meet obligations?
- Need for external financing?
- Separates the overall effect into categories



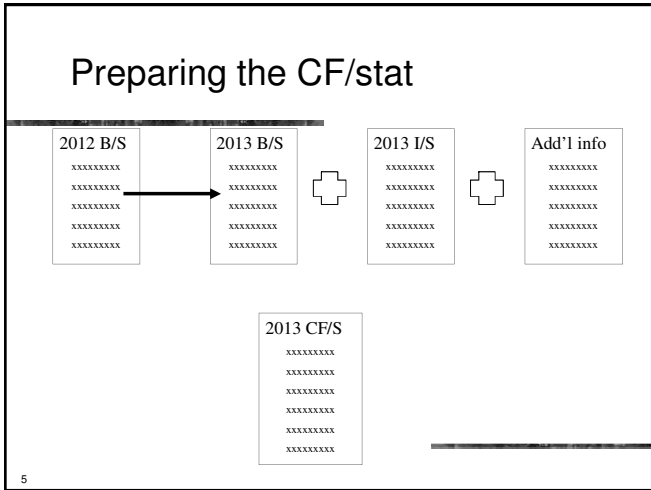
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Examining Cash Flows

- Where did the cash flows come from and go to?
- Operating, Investing, Financing
- Reasons for differences between NI and CFO
- How much cash are we going to need?
- How much cash are we going to have (and from where)?

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Company Name Statement of Cash Flows Period Covered	
Cash flows from operating activities: [List of individual inflows and outflows]	
Net cash provided (used) by operating activities	\$ #####
Cash flows from investing activities: [List of individual inflows and outflows]	
Net cash provided (used) by investing activities	#####
Cash flows from financing activities: [List of individual inflows and outflows]	
Net cash provided (used) by financing activities	#####
Net increase (decrease) in Cash	\$ #####
Cash (and equivalents) balance at beginning of period	#####
Cash (and equivalents) balance at end of period	\$ #####



Classification of Cash Flows

The Statement of Cash Flows must include the following three sections:

- **Cash Flows from Operating Activities**
- **Cash Flows from Investing Activities**
- **Cash Flows from Financing Activities**

Operating Activities

Inflows from:

- Sales to customers.
- Interest and dividends received.



Outflows to:

- Suppliers of merchandise and services.
- Employees.
- Lenders for interest.
- Governments for taxes.



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Investing Activities

Inflows from:

- Selling investments or plant assets.
- Collecting of principal on loans.

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Cash Flows from Investing Activities

Outflows to:

- Acquire plant assets.
- Purchase debt or equity investments.
- Make loans.

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Financing Activities

Inflows from:

- Short-term and long-term borrowing.
- Owners (for example, from issuing stock).

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Cash Flows from Financing Activities

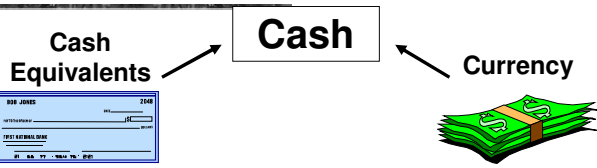
Outflows to:

- Repayments of borrowed funds.
- Owners for dividends.
- Purchase treasury stock.

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Cash and Cash Equivalents



- Short-term, highly liquid investments.
- Readily convertible into cash.
- So near maturity that market value is unaffected by interest rate changes.

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Company Name Statement of Cash Flows Period Covered

Cash flows from operating activities:
[List of individual inflows and outflows]
Net cash provided (used) by operating activities \$ #####

The operating cash flows section can be prepared using either the direct method or the indirect method.

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Direct vs. Indirect method

- The direct method uses the individual components of operating CFs, it starts with a B/S item and adjusts it to CF and then adds them up.
- The Indirect method takes a more drastic approach. It starts with NI and makes adjustments.

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Direct Method

Cash Flows From Operating Activities

Cash Received from Customers	\$	22,100
Cash Paid to Suppliers (Inventory)		(9,100)
Cash Paid for other Oper Exp		(6,000)
Cash Paid for Taxes		(1,600)
Cash From Operating Activities	\$	5,400

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Indirect Method Example

Big Co.

Cash Flows from Operations:

Net Income		\$3,500
Add:	Decrease in Accounts Receivable	100
	Increase in Taxes Payable	400
Subtract:	Increase in Inventory	(1,000)
	Decrease in Accounts Payable	(1,100)
Add:	Depreciation Expense	4,500
Subtract:	Gain on Sale of Land	(1,000)
Net cash flow from operations		\$ 5,400

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Big Company Statement of Cash Flows For the Period Ending December 31, 2012

I. Operating Cash Flows		\$ 5,400
II. Investing Cash Flows		
Proceeds from sale of Land	1,500	
Payment for purchase of Equipment	(1,000)	500
III. Financing Cash Flows		
Proceeds from sale of Stock	\$ 3,000	
Bonds payable	(5,000)	
Dividends	(3,300)	(5,300)
Net Cash Flows for the Period		\$ 600
Add: Beginning Cash Balance		2,400
Ending Cash Balance		\$ 3,000

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