

# Accounting Notes

## Statement of Cash Flows

### Statement of Cash Flows:

Operating Activities - activities that generate revenues or expenses in the company's major line of business.

<u>Receipts</u>	<u>Disbursements</u>
- Collections from customers	- Payments to suppliers
- Receipts of interest & dividends	- Payments to employees
- Other operating receipts	- Payments of interest & income tax
	- Other operating disbursements

Investing Activities - activities that increase or decrease the long term assets of a business

<u>Receipts</u>	<u>Disbursements</u>
- Sale of plant assets	- Acquisition of plant assets
- Sale of long term investments	- Purchase of long term investments
- Receipts on loans receivable	- Making loans

Financial Activities - activities that obtain the cash needed from investors and creditors to launch and sustain the business.

<u>Receipts</u>	<u>Disbursements</u>
- Issuing of stock	- Payment of dividends
- Selling treasury stock	- Purchase of treasury stock
- Borrowing money using notes and bonds payable	- Payment of principal amount of debts

### Statement of Cash Flows formats:

Direct Method - Format of the operating section of the statement of cash flows lists the major categories of cash receipts and disbursements.

Indirect Method - Format of the operating section of the statement of cash flows starts with the net income and then shows the adjustments needed to reconcile the net income with the cash flows from operating activities.

## Accounting Notes

### Statement of Cash Flows

**Direct Method Format:**

Cash Flow from Operating Activities:

Receipts:

Collections from customers	\$xxxx	
Interest Received	xxxx	
Dividends Received	xxxx	
Total Cash Receipts		\$ xxxxx

Payments:

To suppliers	(\$xxxx)	
To employees	( xxxx)	
For Interest	( xxxx)	
For Income Tax	( xxxx)	
Total Cash Payments		( xxxxx)

Net Cash Flow from Operating Activities	\$ xxxxx
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Cash Flow from Investing Activities:

Acquisition of plant assets	(\$xxxx)	
Loan to another company	( xxxx)	
Proceeds from sale of investments	xxxx	
Proceeds from sale of plant assets	xxxx	
Collection of loans	xxxx	

Net Cash Flow from Investing Activities	xxxxx
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Cash Flow from Financing Activities:

Proceeds from issuance of Note Payable	\$xxxx	
Proceeds from issuance of stock	xxxx	
Payments on Notes Payable	( xxxx)	
Dividends Paid	( xxxx)	
Purchase of Treasury stock	( xxxx)	

Net Cash Flow from Financing Activities	( xxxxx)
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Net Increase (Decrease) in Cash	\$xxxxx
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Cash Balance, Beginning of Period	xxxxx
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Cash Balance, End of Period	\$xxxxx
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### Statement of Cash Flows

#### Direct Method Computations:

Collection from customers = Sales + A/R Beg. Bal. - A/R End. Bal.

Payments to suppliers = Cost of Goods Sold + End. Inventory - Beg. Inventory + Beg. A/P - End. A/P

Payments for operating expenses = Operating Expenses + End. Prepaid Exp. Bal. - Beg. Prepaid Exp. Bal. + Beg. Accrued Liab. Bal. - End. Accrued Liab. Bal.

Receipt of interest = Interest Revenue + Beg. Interest Receivable Bal. - End. Interest Receivable Bal.

Receipt of dividends = Dividend Revenue + Beg. Dividend Receivable Bal. - End. Dividend Receivable Bal.

Payments to employees = Wages Expense + Beg. Wages Payable Bal. - End. Wages Payable Bal.

Payments for interest = Interest Expense + Beg. Interest Payable Bal. - End. Interest Payable Bal.

Payments for income taxes = Income Tax Expense + Beg. Income Tax Payable Bal. - End. Income Tax Payable Bal.

#### When to add or subtract in the Indirect Method:

Depreciation, Depletion, or Amortization of assets	Add
Gains	Subtract
Losses	Add
Increase in current Assets	Subtract
Decrease in current Assets	Add
Increase in current Liabilities	Add
Decrease in current Liabilities	Subtract

# Accounting Notes

## Statement of Cash Flows

### Indirect Method Format:

Cash Flow from Operating Activities:		
Net Income	\$xxxx	
Add (Subtract) items that affect net income and cash flows differently:		
Depreciation, Depletion, Amortization (+)	xxxx	
Gain on sale of plant asset (-)	( xxxx)	
Loss on sale of plant asset (+)	xxxx	
Decrease in current assets (+)	xxxx	
Increase in current assets (-)	( xxxx)	
Increase in current liabilities (+)	xxxx	
Decrease in current liabilities (-)	( xxxx)	
Net Cash Flow from Operating Activities	\$ xxxx	\$ xxxx
Cash Flow from Investing Activities:		
Same format as direct method	\$ xxxx	
Same format as direct method	(xxxxx)	
Net Cash Flow from Investing Activities	xxxx	xxxx
Cash Flow from Financing Activities:		
Same format as direct method	\$ xxxx	
Same format as direct method	( xxxx)	
Net Cash Flow from Financing Activities	xxxx	xxxx
Net increase (decrease) in cash	\$ xxxx	
Cash Balance, Beginning of the period	xxxx	
Cash Balance, End of the period	\$ xxxx	