

4. Statement of Cash Flows



4.1 Indirect Method

**4.2 Cash Flow
Analysis**

**4.3 Operating,
Financing, and
Investing Activities**

4.4 Summary

4.1 Indirect Method

- **The Indirect Method is the usual method of computing cash flow from business operations**

- **The Indirect Method starts with net income**

NET PROFIT



- **Indirect Method then uses the changes in the asset and liability accounts to adjust net income**

Assets

Liabilities



- **This adjustment allows for net income to transfer into cash flow from business operation activity.**

- **A line for total cash flow from financing activities uses a single line under it.**

- **This means that the total is not part of the calculation below it:**

- **By adding total net cash flow to the beginning cash account balance, we get the value for “cash—end of period.”**

- **This number must equal the balance in the cash account at the end of the period.**

Net Earnings
cashflow
strategy
tax
amount
result
margin
plan
economy
vision
money
cash
return
equity
dividend
cost
success
line
retained
calculation
budget
future
residual
accounting
statement
expenses
revenue
business
corporate
gross
profit
increase
liabilities
annual
sold
period
assets
report
income
investment

4.2 Cash Flow Analysis

- **Cash flow analysis is utilized for reporting purposes in the cash flow statement.**

CASH FLOW RELATIONSHIPS



- **Cash flow analysis exhibits a starting balance**

- **Then will display an ending balance after accounting for cash expenses in the period**

- **The Cash Flow Statement shows where the cash came from, and where it went during the period**

- **It appears at bottom of cash flow worksheet, include interest incurred.**



Other long-term investments				
Net cash from operations				
Financing				
Proceeds from debt repayments, less than 90 days or less, net	0	(1,000)	8	(1,000)
	208	660	544	877
	(1,042)	(5,052)	(2,976)	(9,451)
	(1,683)	(1,363)	(3,024)	(2,481)
	(2,513)	(6,751)	(5,382)	(7,390)
	(498)	(491)	(934)	(1,055)
Investing				
Additions to property, plant, and equipment	(8,627)	(69)	(9,502)	(69)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(10,047)	(5,896)	(21,346)	(13,313)
Purchases of investments	6,061	1,836	8,886	2,706
Maturities of investments	7,835	2,603	15,371	4,030
Sales of investments	(292)	447	(358)	1,174
Securities lending payable	(5,568)	(1,570)	(7,883)	(6,527)
Net cash used in investing	\$ 10,610	\$ 4,023	\$ 10,610	\$ 4,023
Cash and cash equivalents, end of period				

- **The Cash Flow Statement displays cash flow from the following areas:**

- **Cash flow from Operations**

- **Cash flow from investing activities**

- **Cash flow from financing activities**



- **The calculation for the Cash Flow Statement utilizes the components of:**

(1) net cash flow

(2) cash—end of period.

**The formula used in
this analysis is as
follows:**

- **Cash from operations + Cash from investing activities + Cash From Financing Activities = Total change in cash + Cash—Beginning Of Period = Cash—End Of Period.**



Save



Close



Back



Forward



Reload



Stop



Add Report



Export



Options



Accounts

Cash Flow

Cash Flow - 01/01/08 to 02/25/08

Selected Accounts

- [Assets](#)
- [Assets:Current Assets](#) and selected subaccounts
- [Imbalance-USD](#)

Money into selected accounts comes from

Equity:Opening Balances	\$10,000.00
Income:Bonus	\$2,000.00
Income:Salary	\$5,000.00
Money In	\$17,000.00

Money out of selected accounts goes to

Expenses:Adjustment	\$750.00
Expenses:Books	\$3.00
Money Out	\$753.00

Difference **\$16,247.00**

4.3 Operating, Financing, and Investing Activities

4.3.1 Operating Activities

4.3.2 Investing Activities

4.3.3 Financing Activities

4.3.1 Operating Activities

- **Operational Activity is found in the first section of the Cash Flow Statement.**

- **“Operations” refers to what a business normally does to make money**



4.3.2 Investing Activities

- **Investing Activities appear in the second section of the cash flow statement**

- **Investing Activity displays a business' income-producing sources, such as properties.**



- **On the cash flow statement, it is normal to observe a negative number pertaining to an investment**

Handwritten mathematical expressions on a curved surface, including:

- $36,492 \cdot 86 -$
- $436,869 \cdot 36 -$
- $785,649 \cdot 2 -$
- $2,679,234 \cdot 98 -$
- $4,567 \cdot 3 +$
- $346 \cdot 825 +$
- $46,798 \cdot 25 +$
- $4,587 \cdot 1 +$
- $895 \cdot 36 +$
- $45,237 \cdot 5 -$
- $5,985 \cdot 63 +$
- $856 \cdot 36 -$
- $239 \cdot 25 -$
- $172 \cdot 01 +$
- $98 \cdot 63 -$
- $37 \cdot 2 +$
- $95 \cdot 7 -$
- $54 +$
- $45 -$
- $63 +$
- $89,468 \cdot 7 -$
- $5,732 \cdot 2 +$
- $895 \cdot 63 -$
- $987 \cdot 5 -$
- $51 \cdot 9 -$
- $45 \cdot 5 +$
- $97 +$
- 67
- $69 -$
- $36 -$
- $19 -$
- $6 +$
- $5 +$
- $6 -$
- $47 +$
- $7 \cdot 3$
- $41 -$
- $36 -$
- $45 +$

- **It signifies that cash went out of the company to purchase assets**

4.3.3 Financing Activities

- **Appears in the third section of the cash flow statement**

- **It's the process of finding money for the business from sources other than normal operations:**

- **Primary Source 1:**

- **Lenders**



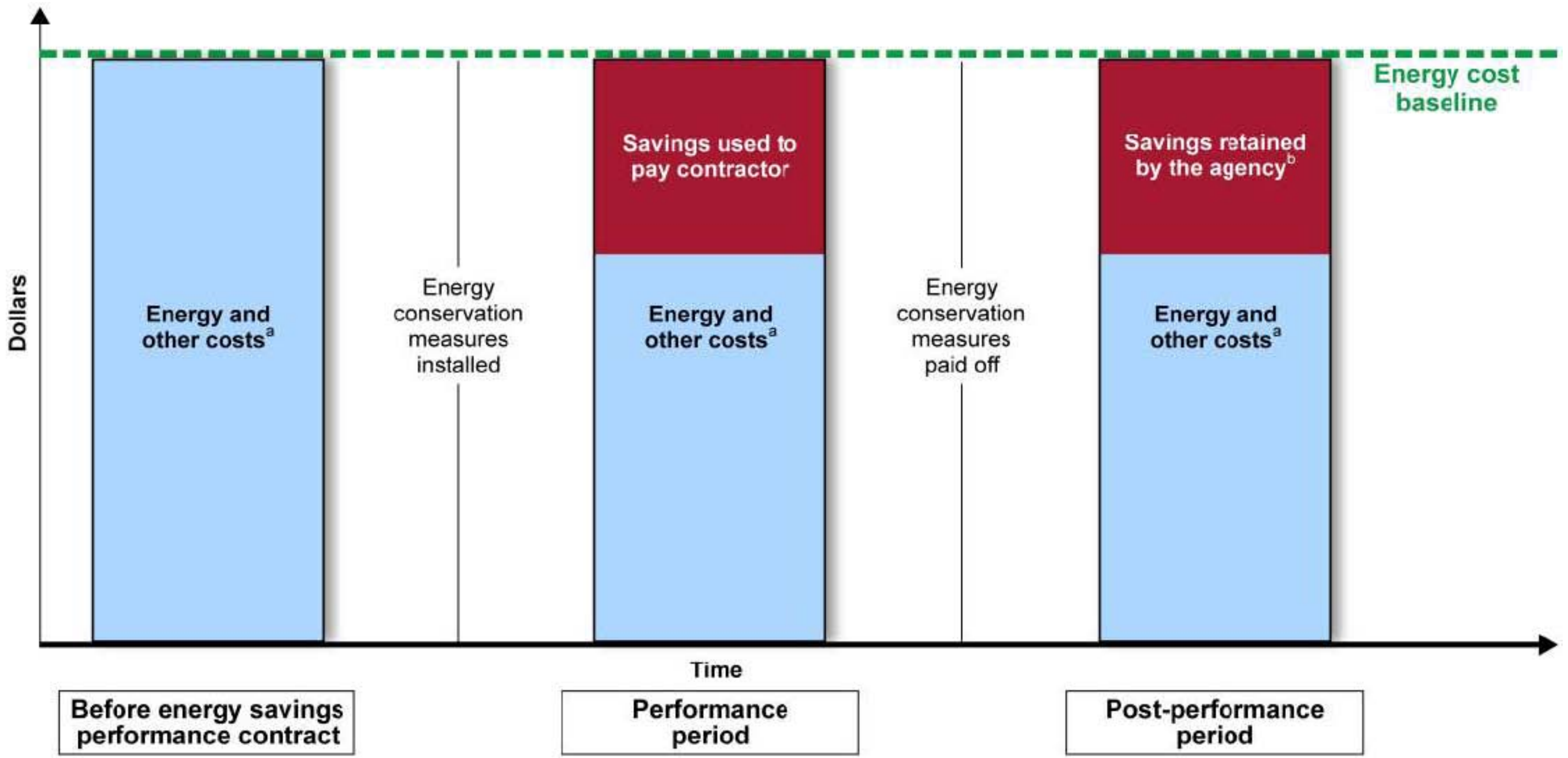
- **Primary Source 2:**

- **Investors**



- **This activity will display all reports on money returned to investors:**

- **This is where money is paid to the principal on a loan from a lender.**



Source: GAO, based on review of DOE documents. | GAO-15-436

4.4 Summary

Cash flow analysis is utilized for reporting purposes, as applied in the cash flow statement.

- **Cash flow analysis exhibits a starting balance**
- **Then will display an ending balance after accounting for cash expenses in the period**
- **The Cash Flow Statement shows where the cash came from, and where it went during the period**
- **It appears at bottom of cash flow worksheet, include interest incurred**

The Cash Flow Statement displays cash flow from the following areas:

- Cash flow from Operations**
- Cash flow from investing activities**
- Cash flow from financing activities**

The calculation for the Cash Flow Statement utilizes the components of:

(1) net cash flow

(2) cash—end of period.

- **The formula used in this analysis is as follows:**

- **Cash from operations +**
- **Cash from investing activities +**
- **Cash From Financing Activities (net cash flow) =**
- **Total change in cash + Cash—Beginning Of Period = Cash—End Of Period**

Exam:

The financial statement that includes classifications for operating, financing, and investing activities of a business entity for a period of time is called the:

(A) Income Statement

(B) Statement of Retained Earnings

(C) Balance Sheet

(D) Statement of Changes in Owners' Equity

(E) Statement of Cash Flows