Operating Cash Flows using the Direct Method

The direct method, in which “The Bike” records all transactions on a cash basis and displays the information using actual cash inflows and outflows during the 6th quarter accounting period. Operating expense items included in the presentation of the direct method of operating cash flow for the “The Bike” include:

|  |  |
| --- | --- |
| - Rebates | 79,500 |
| - Production | 2,783,045 |
| - Research and Development | 545,685 |
| - Quality Costs | 200,069 |
| - System Improvement Costs | 490,090 |
| - Advertising | 453,510 |
| - Internet Marketing Expenses | 47,000 |
| - Sales Force Expense | 355,104 |
| - Store Expense | 74,000 |
| - Marketing Research | 15,000 |
| - Shipping | 61,770 |
| - Excess Capacity Cost | 58,927 |
| - Income Taxes | 0 |
| + Interest Income | 0 |
| - Interest Charges | 146,250 |
| + Other Income | 0 |
| - Other Expenses | 0 |

Total operating expense cash outflow $5,309,950

Total operating revenue cash inflow $6,889,207

Operating Cash Flow $1,579,256

This method is simpler than the indirect method because there are fewer factors to consider. However, it only accounts for cash revenues and expenses. It is calculated with the formula:

**OCF = Cash Revenue — Operating Expenses Paid in Cash**

**OCF of $1,579,256 = Cash Revenue inflow of $6,889,207 – Operating expense cash outflow of $5,309,950**

Cash flow from investing activities for “The Bike” is a section of the cash flow statement that shows the cash generated or spent relating to investment activities. Investing activities include purchases of physical assets, investments in securities, or the sale of securities or assets. The Investing cash flow statement for “The Bike” is as follows:

Investing Activities:

No cash inflows $0

No cash outflows $0

**Cash generated by Investing Activities**  $0

“The Bike” cash flow from financing activities a section of cash flow statement, which shows the net flows of cash that are used to fund the company. Financing activities include transactions involving debt, equity, and dividends.

Financing Activities:

Cash outflows repay Conventional Loan $1,000,000

Cash inflows $0

**Cash generated by Financing Activities**  ($1,000,000)