

CH9 - Statement of Cashflows

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Cash Flow Categories

1. Operating Activity - Net income, current asset, current liability
2. Investing Activity - Long-term asset
3. Financing Activity - Long-term liabilities and owner's equity

Indirect Method

Operating

Cash Flows From Operating Activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
+	Depreciation/depletion/amortization expense
+	Loss on sale of long-term assets
-	Gain on sale of long-term assets
-	Increases in current assets other than cash
+	Decreases in current assets other than cash
+	Increases in current liabilities
-	Decreases in current liabilities
=	Net cash provided by (used for) operating activities

Inversting

Cash Flows from Investing Activities	
+	Sales of long-term assets
-	Purchases of long-term assets
+	Sale of investments
-	Purchase of investments
+	Collections of notes receivable
-	Loans to others
=	Net cash provided by (used for) investing activities

Financing

Cash Flows from Financing Activities	
+	Issuance of shares
-	Repurchase of shares
+	Borrowing
-	Payment of notes and bonds payable
-	Payment of dividends
=	Net cash provided by (used in) financing activities

⚠ Warning – Important Concept

- Increase/Decrease in Current Assets (**non-cash**) \implies Decrease/Increase in Statement of Cash Flows
- Increase/Decrease in Current Liabilities \implies Increase/Decrease in Statement of Cash Flows

ANS From Slides

1. Label the below activities as (O+) if the activity adds to Net Income, (O-) otherwise. (F) for financing activities, (I) for investing activities, and (N) if none of the 4 above.

O+	O-	I	F
Loss on sale of land	Increase in inventory	Purchase of equipment	Increase in N/P
Depreciation Expense	Decrease in Accrued Liability	Collection of Cash	Paid Dividend
Decrease in Prepaid Expense	Gain on sale of Building	Acquisition of Equipment	Issuance of Common Shares
Decrease in A/R			
Net Income			

Retained Earnings (N)

2.

XXXX Inc.
Statement of Cash Flow
For Year Ended 20XX XX XX

Cash from Operating Activities	
Net Income	81000
Depreciation Expense	8000
Increase Current Assets	(30000)
Decrease Current Liability	(50000)
Net Cash From Operating Activities	54000
Investing Activities	
Sales on Land	60000
Purchase Equipment	(40000)
Net Cash From Investing Activities	20000
Financing Activities	
Payment of Dividend	(6000)
Issuance of Common Share	20000
Payment of N/P	(30000)
Repurchase of Common Share	(50000)
Net Cash From Financing Activities	(21000)
Net Increase in Cash	53000

3.

Ertugen Corp.
Statement of Cash Flow
For Year Ended 20XX XX XX

Cash from Operating Activities	
Net Income	70000
Depreciation Expense	500
Increase Current Assets	(29000)
Increase Current Liability	10000
Net Cash From Operating Activities	56000
Investing Activities	
Sales on Land	27000
Purchase Equipment	(42000)
Net Cash From Investing Activities	(15000)
Financing Activities	
Payment of Dividend	(6100)
Issuance of Common Share	18000
Payment of N/P	(30000)
Repurchase of Common Share	(7000)
Net Cash From Financing Activities	(25100)
Net Increase in Cash	15900

4.

AFT
Statement of Cash Flow
For Month of 20XX August

Cash from Operating Activities	
Net Income	25000
Depreciation Expense	5000
Increase Current Assets	(20900)
Increase Current Liability	99000
Net Cash From Operating Activities	(80000)

This indicates a problem as the net cash flow for operating activities show a negative number.

Account Receivable, Account Payable, and inventory are too high

5.

Northern Movie Theatre Corp.
Statement of Cash Flow
For Year Ended 20XX March 31

Cash from Operating Activities	
Net Income	50000
Depreciation Expense	17300
Decrease in Current Assets	4000
Increase in Current Liability	5600
Net Cash From Operating Activities	76900
Investing Activities	
Sales on long-term investment	13700
Purchase Building	(47000)
Purchase Equipment	(78700)
Net Cash From Investing Activities	(112000)
Financing Activities	
Payment of Dividend	(30000)
Issuance of Common Share	11000
Issuance of long-term NP	50000
Net Cash From Financing Activitie	31000
Net Increase in Cash	(4100)