

CH - Statement of Cashflows

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Purpose of the Statement of Cash Flows

1. Predicts future cashflows
2. Evaluates management decisions
3. Determines ability to pay dividends and interest
4. Use to assess the relationship of net income to cash Flows
5. Use to compare operating performance

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

Examples:

1. • Loss on sale of land
• Depreciation expense
• Increase in inventory
• Decrease in prepaid expense
• Decrease in accounts receivable
• Purchase of equipment
• Collection of cash from customers
• Increase in accounts payable
• Net income
• Payment of dividends
• Decrease in accrued liabilities
• Issuance of common shares
• Gain on sale of building
• Retained earnings
- 2.
- 3.