



# The Cash Flow Statement

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INDIAN INSTITUTE OF MANAGEMENT AHMEDABAD

# The Cash Flow Statement

- Operating
- Investing
- Financing

# Indirect method

**FAIRWAY CORPORATION**  
**Statement of Cash Flows**  
**For the Year Ending December 31, 2010**  
**(in thousands)**

**Net cash flow from operating activities:**

Net income	\$200
Noncash expenses, revenues, gains, and losses included in income:	
Depreciation	120
Deferred taxes	5
Increase in accounts receivable	(87)
Increase in inventories	(47)
Increase in accounts payable	56
Increase in taxes payable	1
Gain on sale of equipment	(20)
Cash flow from operating activities	<u>228</u>

**Cash flows from investing activities:**

Acquisition of plant and equipment	(500)
Proceeds from disposals of plant and equipment	20
Purchase of investment securities	(25)
Proceeds from sales of investment securities	<u>75</u>
Net cash used by investing activities	<u>(430)</u>

**Cash flows from financing activities:**

Proceeds of short-term debt	15
Payments to settle short-term debt	(36)
Proceeds of long-term debt	375
Payments on long-term debt	(40)
Proceeds from issuing common stock	44
Dividends paid	<u>(60)</u>
Net cash provided by financing activities	<u>298</u>
Net increase (decrease) in cash and cash equivalents	96
Cash and cash equivalents at beginning of year	<u>230</u>
Cash and cash equivalents at end of year	<u><u>\$326</u></u>



Source: Anthony, Hawkins, Merchant and Singh (2020, p. 341)

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# Cash flow from operating activities

Net Income +/- Non-cash expenses and incomes +/-  
Items related to other categories +/- Change in non-cash operating assets and liabilities

# Rules

- Operating assets
  - Increase (Outflow of cash)
  - Decrease (Inflow of cash)
- Operating liabilities
  - Increase (Inflow of cash)
  - Decrease (Outflow of cash)

# Other issues

- Interest received (*Investing*)
- Dividends received (*Investing*)
- Interest paid (*Financing*)
- Dividends paid (*Financing*)
- Change in marketable securities and investments (*Investing*)
- Change in short-term borrowings (*Financing*)
- Conversion of convertible bond into common stock (*No effect on cash*)

# Problem 11-2 (p. 360)

- A \$2,000,000 piece of equipment is purchased with the proceeds of a new 12-month note
  - Yes; Investing; Financing
- Mortgage bonds are retired with \$790,000 cash and the proceeds of an issue of 150,000 shares of common stock (\$1 each)
  - Yes; Financing; Financing
- \$2,000,000 of inventory is purchased on account
  - No; However, a change in inventory will be shown under indirect method



Source: Anthony, Hawkins, Merchant and Singh (2020, p. 360)



# Problem 11-2 (p. 360)

- A dividend of \$0.25 per share is declared on the 750,000 outstanding shares
  - No
- A piece of machinery is sold for \$1,500,000 cash. When originally purchased, it cost Anwat \$5,000,000, and currently has \$2,500,000 of accumulated depreciation
  - Yes; Investing