In practice, the numerical calculations involved in arriving at the F/S figures are not reported on the published financial statements. However, for our purposes given that our interest is in learning the topic and what we have here is an illustrative classroom problem, we will continue to show the calculations of the dollar amounts involved.

(i) Cash Flow Statement (ASPE)

Anderson Corporation
Cash Flow Statement
For the Year Ended December 31, 20X2

Cash flows from operating activities			
Net income			$520,000
Adjustments to reconcile net income to net cash provided by operating activities:			
DEDUCT: Gain on disposal of building		$ (720,000)	
ADD: Depreciation expense		120,000	
ADD: Increase in interest payable $35,000 – $30,000		5,000	
ADD: Decrease in interest receivable $5,000 – $30,000		25,000	
DEDUCT: Decrease in income tax payable		(8,000)	
ADD: Increase in accounts payable $935,000 – $600,000		335,000	
DEDUCT: Increase in rent receivable $815,000 – $700,000		(115,000)	(358,000)
Net cash provided by operating activities			162,000
Cash flows from investing activities			
Proceeds from disposal of building $720,000 + ($1,600,000 – $245,000)		$2,075,000	
Purchase of new building ($4,600,000 – $1,600,000) – $4,950,000		(1,950,000)	
Net cash provided by investing activities			125,000
Cash flows from financing activities			
Issuance of bonds $900,000 – ($1,000,000 – $300,000)		$ 200,000	
Payment of dividends			
Dividends declared $2,250,000 – ($1,805,000 + $520,000)	$(75,000)		
DEDUCT: Decrease in dividends payable $7,000 – $5,000	(2,000)	(77,000)	
Net cash provided by financing activities			123,000
Net increase in cash and cash equivalents			410,000
Cash and Cash Equivalents, beginning of year			1,050,000
Cash and Cash Equivalents, end of year			$1,460,000

"Net increase in cash and cash equivalents" is reconciled with the beginning balance of "Cash and Cash Equivalents" and the ending balance of "Cash and Cash Equivalents" as reported on the balance sheet. This is required under ASPE (CPA Canada Handbook, Part II, Section 1540, paragraph 43).

(ii) Statement of Cash Flows (IFRS)

Anderson Corporation
Statement of Cash Flows
For the Year Ended December 31, 20X2

Cash flows from operating activities		
Net income		$ 520,000
DEDUCT: Interest income		(60,000)
ADD: Interest expense		140,000
ADD: Income tax expense		220,000
Income before interest and taxes		820,000
Adjustments to convert income before interest and taxes from accrual to cash basis:		
DEDUCT: Gain on disposal of building	$ (720,000)	
ADD: Depreciation expense	120,000	
ADD: Increase in accounts payable $935,000 – $600,000	335,000	
DEDUCT: Increase in rent receivable $815,000 – $700,000	(115,000)	(380,000)
		440,000
Income tax expense	$ (220,000)	
DEDUCT: Decrease in income tax payable	(8,000)	
Income taxes paid		(228,000)
Net cash provided by operating activities		212,000
Cash flows from investing activities		
Interest income	$ 60,000	
ADD: Decrease in interest receivable $5,000 – $30,000	25,000	
Interest received	85,000	
Proceeds from disposal of building $720,000 + ($1,600,000 – $245,000)	2,075,000	
Purchase of new building ($4,600,000 – $1,600,000) – $4,950,000	(1,950,000)	
Net cash provided by investing activities		210,000
Cash flows from financing activities		
Interest expense	$ (140,000)	
ADD: Increase in interest payable $35,000 – $30,000	5,000	
Interest paid	(135,000)	
Issuance of bonds		

$900,000 – ($1,000,000 – $300,000)		200,000	
Payment of dividends			
Dividends declared			
$2,250,000 – ($1,805,000 + $520,000)	$(75,000)		
DEDUCT: Decrease in dividends payable			
$7,000 – $5,000	(2,000)	(77,000)	
Net cash used by financing activities			(12,000)
Net increase in cash			410,000
Cash, beginning of year			1,050,000
Cash, end of year			$1,460,000

"Net increase in cash" is reconciled with the beginning balance of Cash and the ending balance of Cash as reported on the balance sheet. This is a specific requirement under both IFRS and ASPE (see our Lecture 04 slides, page 67 and our Textbook, Chapter 5, Step 3 under Preparation of the Statement of Cash Flows). The relevant standards are IAS7, paragraph 45 for IFRS, and CPA Canada Handbook, Part II, Section 1540, paragraph 43 for ASPE.

"Payment of dividends" is classified as a cash flow under **Financing Activities** in this Cash Flow Statement. Alternatively, management of Andersen Corporation can choose to classify the $77,000 "Payment of dividends" as a component of cash flow from **Operating Activities**. This alternative is allowed under IFRS (IAS7, paragraph 34), see our Lecture 04 slides, page 77.

IFRS requires the cash flows from interest and dividends received and paid and the cash flows arising from income taxes to be disclosed separately on the Cash Flow Statement (IAS7, paragraphs 31 and 35), see our Lecture 04 slides, page 71. For example, in this question, with respect to "interest received", disclosing the $85,000 alone would meet the relevant part of that IFRS requirement. In practice, the calculations involved in arriving at the $85,000 figure (i.e., adjustment for decrease in Interest Receivable to convert the accrued basis Interest Income to the cash basis Interest Received) would not be reported on the published financial statements. However, for our purposes, we will continue to show the calculations involved. We will do the same for the dollar amounts of "interest paid", "income taxes paid", and "dividends paid".

A second possibility is to start with "Income before taxes" in the "Operating Activities" section:

You should also know about this possibility because, in practice, some of your clients can be using this format.

Anderson Corporation
Statement of Cash Flows
For the Year Ended December 31, 20X2

Cash flows from operating activities		
Income before taxes		$ 740,000*
DEDUCT: Interest income		(60,000)
ADD: Interest expense		140,000
Income before interest and taxes		820,000
Adjustments to convert income before interest and taxes from accrual to cash basis:		
DEDUCT: Gain on disposal of building	$ (720,000)	
ADD: Depreciation expense	120,000	
ADD: Increase in accounts payable $935,000 – $600,000	335,000	
DEDUCT: Increase in rent receivable $815,000 – $700,000	(115,000)	(380,000)
		440,000
Income tax expense	$ (220,000)	
DEDUCT: Decrease in income tax payable	(8,000)	
Income taxes paid		(228,000)
Net cash provided by operating activities		212,000
Cash flows from investing activities		
Interest income	$ 60,000	
ADD: Decrease in interest receivable $5,000 – $30,000	25,000	
Interest received	85,000	
Proceeds from disposal of building $720,000 + ($1,600,000 – $245,000)	2,075,000	
Purchase of new building ($4,600,000 – $1,600,000) – $4,950,000	(1,950,000)	
Net cash provided by investing activities		210,000

Cash flows from financing activities			
Interest expense		$ (140,000)	
ADD: Increase in interest payable			
$35,000 – $30,000		5,000	
Interest paid		(135,000)	
Issuance of bonds			
$900,000 – ($1,000,000 – $300,000)		200,000	
Payment of dividends			
Dividends declared			
$2,250,000 – ($1,805,000 + $520,000)	$(75,000)		
DEDUCT: Decrease in dividends payable			
$7,000 – $5,000	(2,000)	(77,000)	
Net cash used by financing activities			(12,000)
Net increase in cash			410,000
Cash, beginning of year			1,050,000
Cash, end of year			$1,460,000

*Income before taxes = Net income + Income tax expense = $520,000 + $220,000 = $740,000

A third possibility is to start directly with "Income before interest and taxes" in the "Operating Activities" section:

You want to know about this possibility too because, in practice, some of your clients can be using this format.

Anderson Corporation
Statement of Cash Flows
For the Year Ended December 31, 20X2

Cash flows from operating activities		
Income before interest and taxes		$ 820,000*
Adjustments to convert income before interest and taxes from accrual to cash basis:		
DEDUCT: Gain on disposal of building	$ (720,000)	
ADD: Depreciation expense	120,000	
ADD: Increase in accounts payable $935,000 – $600,000	335,000	
DEDUCT: Increase in rent receivable $815,000 – $700,000	(115,000)	(380,000)
		440,000
Income tax expense	$(220,000)	
DEDUCT: Decrease in income tax payable	(8,000)	
Income taxes paid		(228,000)
Net cash provided by operating activities		212,000
Cash flows from investing activities		
Interest income	$ 60,000	
ADD: Decrease in interest receivable $5,000 – $30,000	25,000	
Interest received	85,000	
Proceeds from disposal of building $720,000 + ($1,600,000 – $245,000)	2,075,000	
Purchase of new building ($4,600,000 – $1,600,000) – $4,950,000	(1,950,000)	
Net cash provided by investing activities		210,000
Cash flows from financing activities		
Interest expense	$ (140,000)	
ADD: Increase in interest payable $35,000 – $30,000	5,000	
Interest paid	(135,000)	
Issuance of bonds $900,000 – ($1,000,000 – $300,000)	200,000	

Payment of dividends			
Dividends declared			
$2,250,000 – ($1,805,000 + $520,000)	$(75,000)		
DEDUCT: Decrease in dividends payable			
$7,000 – $5,000	(2,000)	(77,000)	
Net cash used by financing activities			(12,000)
Net increase in cash			410,000
Cash, beginning of year			1,050,000
Cash, end of year			$1,460,000

*Income before interest and taxes = Net income + Income tax expense + Interest Expense – Interest income = $520,000 + $220,000 + $140,000 – $60,000 = $820,000

(iii) Statement of Cash Flows (IFRS) – Direct Method for reporting cash flows from operating activities

Under IFRS, companies are encouraged to use this method, see our Lecture 04 slides, page 69.

Anderson Corporation
Statement of Cash Flows
For the Year Ended December 31, 20X2

Cash flows from operating activities			
Rental payments received			
calculated as Rental Revenue adjusted for Increase in			
Rent Receivable, $1,430,000 – ($815,000 – $700,000)			$ 1,315,000
Operating costs paid			
calculated as Operating Expense adjusted for Increase in			
Accounts Payable, $(1,210,000) + ($935,000 – $600,000)			(875,000)
Income taxes paid			
calculated as Income Tax Expense adjusted for Decrease in			
Income Tax Payable, $(220,000) – ($18,000 – $10,000)			(228,000)
Net cash provided by operating activities			212,000
Cash flows from investing activities			
Interest received			
calculated as Interest Income adjusted for Decrease in			
Interest Receivable, $60,000 + ($30,000 – $5,000)		$ 85,000	
Proceeds from disposal of building			
$720,000 + ($1,600,000 – $245,000)		2,075,000	
Purchase of new building			
($4,600,000 – $1,600,000) – $4,950,000		(1,950,000)	
Net cash provided by investing activities			210,000
Cash flows from financing activities			
Interest paid			
calculated as Interest Expense adjusted for Increase in			
Interest Payable, $(140,000) + ($35,000 – $30,000)		$ (135,000)	
Issuance of bonds			
$900,000 – ($1,000,000 – $300,000)		200,000	
Dividends paid			
Dividends declared ($1,805,000 +			
$520,000 – $2,250,000)	$(75,000)		
DEDUCT: Decrease in dividends payable			
$7,000 – $5,000	(2,000)	(77,000)	
Net cash used by financing activities			(12,000)
Net increase in cash			410,000
Cash, beginning of year			1,050,000
Cash, end of year			$1,460,000