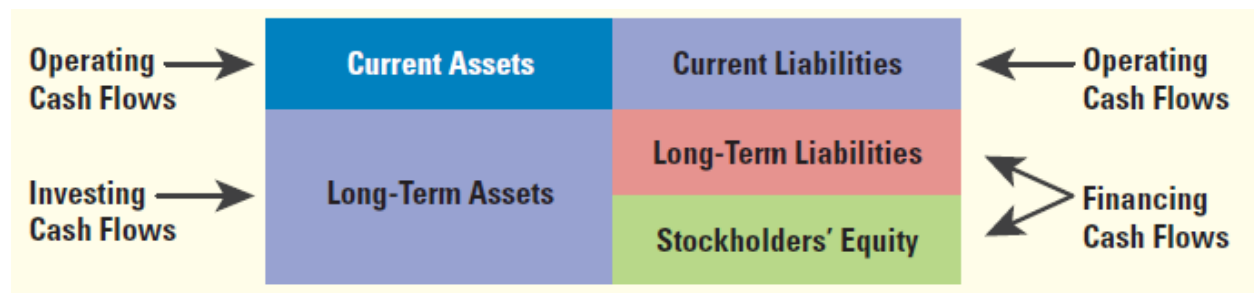


## CONCEPT: INTRODUCTION TO STATEMENT OF CASH FLOWS

- The **Statement of Cash Flows** shows what affected the Cash account balance throughout the period
  - *Predictive Value* – Helps predict future cash flows based on past cash flows
  - *Evaluate Management* – Window into management's decision making surrounding cash flows
  - *Ability to Pay* – Determine the company's ability to pay interest and dividends
  - *Net Income and Cash Flow* – Investors have a clear picture of the relationship between net income and cash flow
- The **Statement of Cash Flows** organizes the cash flows into \_\_\_\_\_ main sections:
  - **Operating Activities** create revenues, expenses, gains, and losses resulting in net income.
    - Represents the core business of the organization
    - Successful businesses must generate positive cash flows from operating activities
    - Operating activities are focused on changes in operating \_\_\_\_\_
  - **Investing Activities** relate to the purchase and sale of \_\_\_\_\_
  - **Financing Activities** describe cash activities with investors and creditors
    - Financing Activities are focused on \_\_\_\_\_ and \_\_\_\_\_



**PRACTICE:** The purchase of equipment and the sale of equipment would be shown on the Statement of Cash Flows as:

- a) Purchase: Investing      Sale: Financing
- b) Purchase: Operating      Sale: Financing
- c) Purchase: Investing      Sale: Investing
- d) Purchase: Operating      Sale: Investing

- The **Statement of Cash Flows** also includes supplemental disclosures at the \_\_\_\_\_ of the statement:

- ☐ **Cash paid for interest**
- ☐ **Cash paid for taxes**
- ☐ **Significant Noncash Investing and Financing Activities** shows important noncash transactions

<b>E-GAMES, INC.</b> <b>Statement of Cash Flows—Indirect Method</b> <b>For the year ended December 31, 2012</b>		
<b>Cash Flows from Operating Activities</b>		
Net income	\$42,000	
<i>Adjustments for noncash effects:</i>		
Depreciation expense	9,000	
Loss on sale of land	4,000	
<i>Changes in current assets and current liabilities:</i>		
Increase in accounts receivable	(7,000)	
Decrease in inventory	10,000	
Increase in prepaid rent	(2,000)	
Decrease in accounts payable	(5,000)	
Increase in interest payable	1,000	
Decrease in income tax payable	<u>(2,000)</u>	
Net cash flows from operating activities		\$50,000
<b>Cash Flows from Investing Activities</b>		
Purchase of investment	(35,000)	
Sale of land	<u>6,000</u>	
Net cash flows from investing activities		(29,000)
<b>Cash Flows from Financing Activities</b>		
Issuance of common stock	5,000	
Payment of cash dividends	<u>(12,000)</u>	
Net cash flows from financing activities		<u>(7,000)</u>
Net increase (decrease) in cash		14,000
Cash at the beginning of the period		48,000
Cash at the end of the period		<u><u>\$62,000</u></u>
<b>Note: Noncash Activities</b>		
Purchased equipment by issuing a note payable		<u><u>\$20,000</u></u>