

## ADMS 2500 - Introduction to Financial Accounting

### Cash Flow Statement

- A cash flow statement helps organize and present the **sources** and **uses** of cash within an organization over a given period of time
- In order to prepare the statement of cash flows, we must convert from an accrual basis of accounting back to a cash basis
- The statement is prepared to assess the liquidity of the firm. I.e. does the firm have enough cash to meet its liabilities as they come due?
- The cash flow statement is separated into three different sections:
  - Operating Section (Prepared by either the Direct or Indirect Method)
  - Investing Section
  - Financing Section

**Kleinburg Inc.**  
**In come Statement**  
**For the Period E nd ed Dec 31, 2020**

Sales		\$ 54,000.00
Cost of Goods Sold		13,500.00
Gross Margin		\$ 40,500.00
Operating Expenses	25,000.00	
Depreciation Expense	\$ 2,000.00	
Total Operating Expense		27,000.00
Operating Income		\$ 13,500.00
Loss on Sale of Equipment		1,000.00
Income Before Interest & Taxes		\$ 12,500.00
Interest Expense		1,000.00
Income Before Interest & Taxes		11,500.00
Income Tax Expense		2,500.00
<b>Net Income</b>		<b>\$ 9,000.00</b>

**Kleinburg Inc.**  
**Comparative Balance Sheet**  
**As At Dec 31**

	2020	2019	Δ
Cash	45,400.00	36,800.00	8,600.00
Accounts Receivable	11,000.00	13,000.00	(2,000.00)
Inventory	2,000.00	1,600.00	400.00
Capital Assets	17,000.00	15,000.00	2,000.00
Accumulated Depreciation	(3,500.00)	(2,000.00)	(1,500.00)
<b>Total Assets</b>	<b>\$ 71,900.00</b>	<b>\$ 64,400.00</b>	<b>\$ 7,500.00</b>
Accounts Payable	5,800.00	4,000.00	1,800.00
Interest Payable	1,000.00	-	1,000.00
Income Taxes Payable	1,000.00	1,200.00	(200.00)
Dividends Payable	1,500.00	3,100.00	(1,600.00)
<b>Total Liabilities</b>	<b>\$ 9,300.00</b>	<b>\$ 8,300.00</b>	<b>\$ 1,000.00</b>
Common Shares	12,000.00	10,000.00	2,000.00
Retained Earnings	50,600.00	46,100.00	4,500.00
<b>Total Equity</b>	<b>\$ 62,600.00</b>	<b>\$ 56,100.00</b>	<b>\$ 6,500.00</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$ 71,900.00</b>	<b>\$ 64,400.00</b>	<b>\$ 7,500.00</b>

## Cash Flow Statement: Operating Section - Indirect Method

Steps to Remember:

1. Begin with *Net Income*
2. Reverse any 'non-cash' items on the income statement
  - i. Add: *Depreciation/Amortization Expense*
  - ii. Add: Any *Losses*
  - iii. Deduct: Any *Gains*
3. Examine the Changes in Current Assets & Current Liabilities
  - i.  $\Delta$  Current Assets  $\uparrow$  - *Deduct 'outflow'*
  - ii.  $\Delta$  Current Assets  $\downarrow$  - *Add 'inflow'*
  - iii.  $\Delta$  Current Liabilities  $\uparrow$  - *Add 'inflow'*
  - iv.  $\Delta$  Current Liabilities  $\downarrow$  - *Deduct 'outflow'*

## Cash Flow Statement: Operating Section - Direct Method

- Here we must calculate the Operating Section of the Cash Flow Statement by using formulas for the major types of Operational Activities *sources* & *uses* of cash.
- *Cash Collected from Customers on Account:*
- *Cash Paid to Suppliers for Merchandise:*
- *Cash Paid for Operational Expenses:*
- *Cash Paid for Interest Expenses:*
- *Cash Paid for Income Taxes:*
- *Cash Paid for Prepaid Expenses:*

### Cash Flow Statement: Investing Activities Section

- HINT: Focus attention on Long Term Assets
- Here we put any change in **Fixed/Capital** Assets (land, building, equipment)
- Example: Purchase of fixed assets are outflows
- Example: Sales of fixed assets are inflow

### Cash Flow Statement: Financing Activities Section

- HINT: Focus attention on any changes in
  - **Long Term Liabilities**
  - **Shareholders' Equity**
- Obtaining or repayment of loans
- Issuance or repurchase of shares
- Dividends\* (the value for which is computed using Retained Earnings)