



# STATEMENT OF CASH FLOWS

INDIRECT METHOD



# THE STATEMENT OF CASH FLOWS

- Explains the change in cash
- Just rearranges the financial statements
- Cash + Other Assets = Liabilities + Stockholders' Equity + Net Income
- Cash = Liabilities + Stockholders' Equity + Net Income – **Other Assets**
- $\Delta \text{Cash} = \text{Net Income} - \Delta \text{Current Assets} + \Delta \text{Current Liabilities}$  ← CF from Operations
  - $\Delta \text{Long-term Asset}$  ← CF from Investing
  - +  $\Delta \text{Long-term Liabilities} + \Delta \text{Stockholders' Equity}$  ← CF from Financing



# FORMAT – INDIRECT METHOD

Statement of Cash Flows		
For the year ended 20XX		
Net Income	\$ 1,000,000	
+/- Noncash Items	\$ 280,000	
- Changes in Current Assets	\$ (550,000)	
+Changes in Current Liabilities	\$ 350,000	
Net Cash Flows from Operations		\$ 1,080,000
Cash Flows from Investing		
+ Sold Noncurrent Assets	\$ 620,000	
- Purchased Noncurrent Assets	\$ (430,000)	
Net Cash Flows from Investing		\$ 190,000
Cash Flows from Financing		
+ Issued Long-term Debt	\$ 210,000	
- Paid Off Long-Term Debt	\$ (410,000)	
+ Issued Stock	\$ 380,000	
- Retired or Bought Back Stock	\$ (240,000)	
- Paid Dividends	\$ (280,000)	
Net Cash Flows from Financing		\$ (340,000)
Net Change in Cash		\$ 930,000
Beginning Cash Balance		\$ 800,000
Ending Cash Balance		<u>\$ 1,730,000</u>



# TIPS AND TRICKS

Retained Earnings		NI	Purchase	Equipment			Accumulated Depreciation		Dep Exp
	\$500,000			\$1,600,000				\$2,000,000	
	\$1,000,000			\$430,000			\$120,000		
Div.	\$280,000				\$520,000			\$500,000	
	\$1,220,000			\$1,510,000				\$2,380,000	

The Income Statement shows a Gain on Sale of Equipment of \$220,000 and you're told the book value of that equipment was \$400,000

Cash		620,000		← CF from Investing
Accumulated Depreciation		120,000		
	Gain on Sale of Equip		220,000	← CF from Operations
	Equipment		520,000	



**THAT'S ALL,  
FOLKS!**

