

# PRINCIPLES OF FINANCIAL AND MANAGERIAL ACCOUNTING II

## Statement of Cash Flows

### I. History of Statement of Cash Flows

#### A. Prior to 1971

studied "funds flow" and "cash flow" but not required to be reported

#### B. 1971 through July 8, 1988

Statement of Changes in Financial Position required for all published financial statements

1. working capital concept (most popular)
2. cash concept

#### C. July 31, 1988 to present Statement of Cash Flows

1. considered a principal financial statement
2. to be included whenever Balance Sheet and Income Statement information is presented

### II. Questions the financial statements attempt to answer (from first semester)

#### A. Balance Sheet

*Where does my business stand today?*

#### B. Income Statement

*How well did my business do this month (this year, etc.)?*

#### C. Statement of Cash Flows

*From where did cash come, and where did it go?*

(also mentioned in Chapter 1, pp. 4, 21, 22, 24 and many others)



III. Categories of sources ("inflows") and applications/uses ("outflows") of cash

Cash	
<u>Sources</u> ("inflows"):	<u>Applications/Uses</u> ("outflows"):
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____
4. _____	4. _____

IV. Grouping sources/applications for Statement presentation

- I. \_\_\_\_\_
- II. \_\_\_\_\_
- III. \_\_\_\_\_

V. Operating Activities

A. Preparer assumed to understand these underlying concepts:

- 1. Balance Sheet/income Statement interrelated
  - a. Chapter 1, Exercise E1-10, we found net income from balance sheet data
  - b. Chapters 3, 4, 5, and others every AJE effected the BS and the IS

2. Net Income ≠ Cash

- a. Chapter 14, appropriations of retained earnings

	≠	Cash
	≠	Cash
	=	Cash

- b. Income Statement prepared under accrual basis
- c. Results of operations reported on the income statement may result in many balance sheet changes -- not limited to changes in cash.

BALANCE SHEET		
Current Assets		
Cash	x	
Receivables	x	
Inventory	x	
PrePd Exp	<u>x</u>	xxxx
LT Assets		
PP&E	xxx	
Acc Depr	<u>x</u>	<u>xx</u>
TOTAL ASSETS		<u>xxxxxx</u>
Current Liabilities		
Accts Pay	x	
Sal Pay	<u>x</u>	xx
LT Liabilities		
Bonds Payable		xx
Capital Stock	x	
Retained Earnings	<u>x</u>	<u>xx</u>
TOTAL LIAB & SE		<u>xxxxxx</u>

INCOME STATEMENT	
Sales	xxxxxxxxxx
Cost of Goods Sold	<u>          xx</u>
Gross Profit	xxxxxxxxxx
Expenses:	
Advertising	x
Depreciation	x
Salaries	x
Rent	x
Insurance	x
Interest	x
Utilities	<u>x</u>
Total Expenses	<u>          xxxxxxx</u>
NET INCOME	<u>          x</u>

- d. If these positions are true for one current asset and one current liability, we can assume they would be the same for all current assets and all current liabilities, and, therefore, summarize as follows:


- B. "Cash Provided by Operations" can be determined in three phases by changing Net Income as follows:
1. add and deduct \_\_\_\_\_  
(best example: \_\_\_\_\_)
  2. add and deduct \_\_\_\_\_  
\_\_\_\_\_  
(exceptions: dividends payable, marketable securities)
  3. to avoid duplication, negate effect of loss (add) or gain (deduct) from sale of LT investing and financing activities (already in NI).

#### VI. *Investing Activities*

A. Determine in/outflows (referring to list of 4 sources/uses) by examining "non-current" accounts.

B. Current and "noncurrent" accounts

- |   |  |
|---|--|
| <ol style="list-style-type: none"> <li>1. <u>Current</u></li> </ol> <ul style="list-style-type: none"> <li>Current Assets</li> <li>Current Liabilities</li> </ul> | <u>"Non-Current"</u><br>Long-Term Assets<br>Long-Term Liabilities<br>Capital Stock<br>Retained Earnings<br>Revenue<br>Expenses |
|---|--|

2. since significant cash transactions have one current and one "non-current" effect, easier to find them by examining "non-current" accounts

#### VII. *Financing Activities*

As for investing activities, determine in/outflows (referring to list of 4 sources/uses) by examining "noncurrent" accounts.

#### VIII. Summary

A. "Tools" needed

1. Comparative Balance Sheet (provided in textbook)
2. Four categories of sources and uses of cash
3. Cash Provided By Operations (CPBO) "Window"
4. Data from "non-current" accounts (provided)
5. "Pattern" to follow (textbook or other example)

B. "Know-How" needed (steps in preparing statement)

1. from comparative balance sheet, prepare an "increase/decrease" column (this becomes a "check-list" for making sure all changes were considered)
2. using "4 sources/4 uses" list, consider items of in/outflow
  - a. convert NI to CPBO (three phases)
  - b. use information from "noncurrent" accounts to find *investing* and *financing* in/outflows.

IX. Sample Problem

The comparative balance sheet for Resurrection Company at April 30 of the current and preceding year is presented at the top of the next page. Selected "non-current" accounts are provided for additional information.

Prepare a statement of cash flows.



RESURRECTION COMPANY  
COMPARATIVE BALANCE SHEET

<u>ASSETS</u>	<u>4/30/x2</u>	<u>4/30/x1</u>	Increase (Decrease)	✓
Cash	\$ 30,000	\$ 4,000	\$ 26,000	_____
Accounts Receivable	21,000	10,000	11,000	_____
Merchandise Inventory	30,000	36,000	(6,000)	_____
Equipment	180,000	150,000	30,000	_____
Accumulated Depreciation	(36,000)	(30,000)	(6,000)	_____
Land	-0-	30,000	(30,000)	_____
Total Assets	<u>\$225,000</u>	<u>\$200,000</u>	<u>\$ 25,000</u>	
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
Accounts Payable	\$ 33,000	\$ 40,000	\$ (7,000)	_____
Salaries Payable	3,000	2,000	1,000	_____
Dividends Payable	3,000	3,000	-0-	_____
Bonds Payable	20,000	60,000	(40,000)	_____
Common Stock	80,000	50,000	30,000	_____
Paid in Cap. in Excess of Par--C. S.	39,000	15,000	24,000	_____
Retained Earnings	47,000	30,000	17,000	_____
Total Liab. and Stockholders' Equity	<u>\$225,000</u>	<u>\$200,000</u>	<u>\$ 25,000</u>	

Equipment

5/1/x1 Balance	150,000
Purchased for cash	30,000

Accumulated Depreciation

5/1/x1 Balance	30,000
4/30/x2 Depreciation Expense	6,000

Land

5/1/x1 Balance	30,000
Sold for \$28,000	30,000

Bonds Payable

retired at maturity	40,000
5/1/x1 Balance	60,000

Common Stock

5/1/x1 Balance	50,000
Issued for cash	30,000

Paid in Capital in Excess of Par — Common Stock

5/1/x1 Balance	150,000
Issued for cash	24,000

Retained Earnings

Dividends declared	5,000
5/1/x1 Balance	30,000
Net Income per I. Stmt.	22,000

**RESURRECTION COMPANY**  
**Statement of Cash Flows**  
**For the Year Ended April 30, xxxx**

---

Cash flows from ***operating activities***:

Net income, per income statement		\$	
Add:		\$	
Deduct:		\$	
Net cash flow			
	<i>operating activities</i>	\$	

Cash flows from ***investing activities***:

		\$	
Less:			
Net cash flow			
	<i>investing activities</i>		

Cash flows from ***financing activities***:

		\$	
Less:		\$	
Net cash flow			
	<i>financing activities</i>		

		\$	
Cash at the beginning of the year			
Cash at the end of the year		\$	