

PRINCIPLES OF ACCOUNTING II
ACC 122

CASH FLOW

OPERATING ACTIVITIES

Cash inflows from:

Sale of goods or services
Interest
Dividends
Other

Cash outflows for:

Purchase of inventory
Payment of salaries and wages
Interest
Other expenses

Cash provided by operating activities can be determined in two different ways:

A. Direct Method

Deducts from cash sales only those operating expenses that consumed cash

B. Indirect Method

Starts with accrual basis net income and indirectly adjusts net income for items that affected net income but did not involve cash.

INVESTING ACTIVITIES

Cash inflows from:

Sale of property, plant and equipment
Sale of securities
Collection of long-term loans

Cash outflows for:

Purchase of property, plant and equipment
Purchase of securities
Making loans

FINANCING ACTIVITIES

Cash inflows from:

Issuing capital stock
Issuing debt

Cash outflows for:

Purchase of treasury stock
Payment of debt
Payment of cash dividends

NONCASH INVESTING AND FINANCING ACTIVITIES

1. Some important investing and financing activities do not involve cash receipts or payments.
2. These items are not reported in the Statement of Cash Flows.
3. Disclose this information in notes or on a separate schedule.

Examples include:

- Purchase of a long-term asset by issuing note payable.
- The retirement of a note by issuing stock.
- The conversion of preferred stock to common stock.

STEPS IN PREPARING THE STATEMENT OF CASH FLOWS:

1. Determine the cash flows from operating activities using either the direct or indirect method.
2. Analyze all noncurrent accounts for changes in cash resulting from investing or financing activities.
3. Arrange the information in 1 and 2 in the proper format.