


Slide 1

2.4 Statement of Cash Flows

Objectives

- Purpose
- Formats
- Operating activities
- Investing activities
- Financing activities




Slide 2

Purpose

□ Purpose

- Provide a clear understanding of cash inflows and outflows of a business organization
- A business can have a strong income statement and still have poor cash flow. Most common reason small business doesn't succeed in its first 1-5 years is due to cash flow problems...which is why the bank wants to see a Statement of Cash Flow prior to lending




Slide 3

Format

□ Formats


- Indirect
 - Most common format
 - Basically adjust net income to cash flow from operations adding and subtracting CHANGES in operating activities
 - Easiest to prepare
- Direct
 - Easiest format to understand
 - Simply reports Cash from operations, financing and investing
 - Hardest to prepare



Slide 4

Statement of Cash Flows


Please pull up the statementcashflows.doc to refer to during the discussion of the next slide. As recommended previously for other handouts it is best to print these out so that you can write upon them during the discussion.



Slide 5

Information Presented


- Operating Activities
 - Cash payments for products
 - Cash receipts for sale of products
 - Cash payments for employee wages
- Investing Activities
 - Cash receipts from sale of truck
 - Cash payments for purchase of equipment
- Financing Activities
 - Cash receipts from issuance of stock
 - Cash payments of dividends



Slide 6

Classifying cash activities into their proper categories Problem

1. Cash receipts from sales
2. Cash receipts from issuance of stock
3. Cash receipts from sale of equipment
4. Cash receipts from acquiring a loan
5. Cash payments for employee wages
6. Cash payments for interest
7. Cash payments for merchandise inventory
8. Cash payments for purchase of new manufacturing plant



Slide 7

Classifying cash activities into their proper categories Solution

| | |
|-----------------------|-----------------------|
| 1. Operating activity | 1. Operating activity |
| 2. Financing activity | 2. Operating activity |
| 3. Investing activity | 3. Operating activity |
| 4. Financing activity | 4. Investing activity |

