

Introduction to Financial Statements: Cash Flow Statements

C O N T E N T S

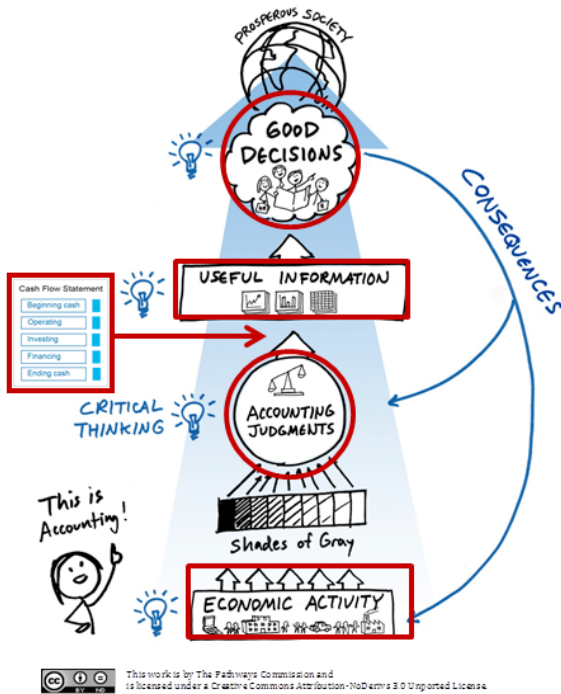
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Questions Pertaining to Cash Flow Statements

Introduction to Financial Statements Cash Flow Statements

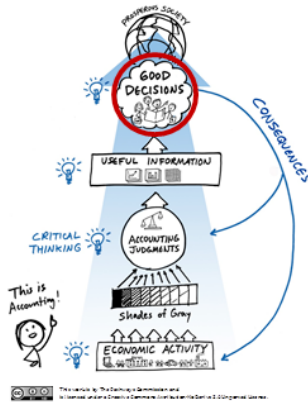


- Which user decisions might be affected by cash flow statements?
- What economic activities affect cash flow statements?
- How do accounting judgments affect cash flow statements?
- What determines the usefulness of cash flow statement information?

What User Decisions are Affected?

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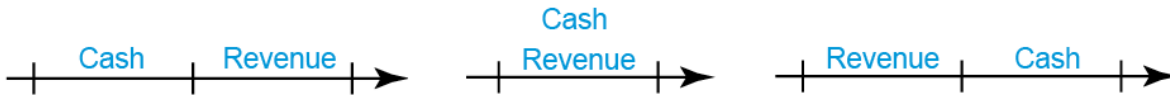
Which user decisions might be affected by cash flow statements?



- Assess how effectively cash was managed
- Predict capacity to meet future cash needs and distribute cash to owners.



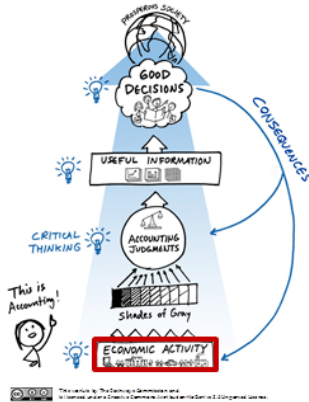
Balance sheet	\$150
Income statement	\$37
Cash flow statement	\$54



What Economic Activities are Affected?

Introduction to Financial Statements Cash Flow Statements

What economic activities affect cash flow statements?



- Financing
- Investing
- Operating

FINANCING



INVESTING



OPERATING



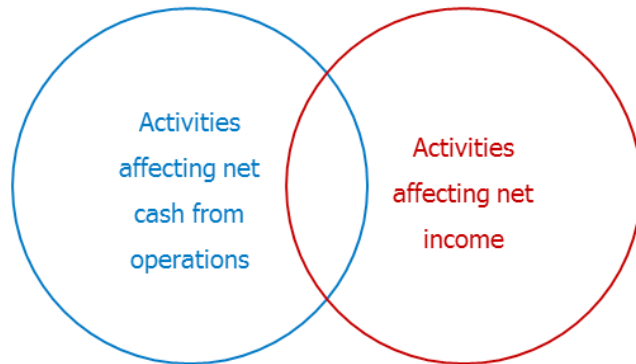
What Economic Activities are Affected?

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Cash Flow Statements

What economic activities affect cash flow statements?

First purpose of cash flow statements

Explain how cash changed during the period in terms of significant cash inflows and outflows, organized by types of economic activities.



Second purpose of cash flow statements

Explain the reasons net income differs from net cash from operating activities.

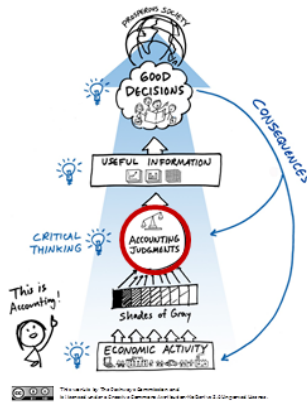
Operating

Net income	■
Adjustments	■
<hr/>	
Net cash from operations	■

How Do Accounting Judgments Affect Cash Flow Statements?

Introduction to Financial Statements Cash Flow Statements

How do accounting judgments affect cash flow statements?



- Determine how activities are classified
- Determine level of detail provided
- Determine format of operating section
 - Direct
 - Indirect

How Do Accounting Judgments Affect Cash Flow Statements?

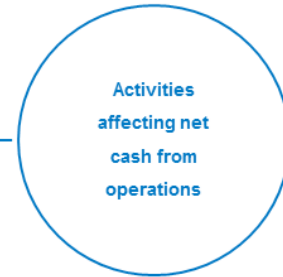
Introduction to Financial Statements Cash Flow Statements

How do accounting judgments affect cash flow statements?

Meets first purpose of cash flow statements

Explain how cash changed during the period in terms of significant cash inflows and outflows, organized by types of economic activities.

Direct Cash Flow Statement	
Beginning cash	■
Operating	
Customer collections	■
Supplier payments	■
Other	■
Net cash from operations	■
Investing	
Purchase building & equipment	■
Sell investment securities	■
Other	■
Net investing cash flows	■
Financing	
Issue common stock	■
Loan payment	■
Other	■
Net financing cash flows	■
Ending cash	■



How Do Accounting Judgments Affect Cash Flow Statements?

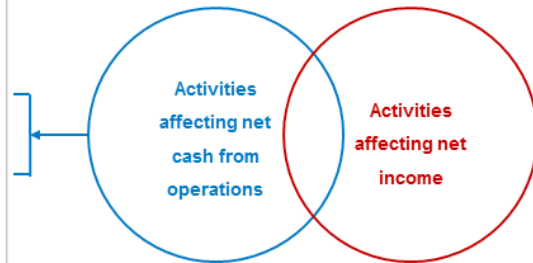
Introduction to Financial Statements Cash Flow Statements

How do accounting judgments affect cash flow statements?

Meets second purpose
of cash flow statements

Explain the reasons net
income differs from net
cash from operating
activities

Indirect Cash Flow Statement	
Beginning cash	■
Operating	
Net income	■
Adjustments	■
Net cash from operations	■
Investing	
Purchase building & equipment	■
Sell investment securities	■
Other	■
Net investing cash flows	■
Financing	
Issue common stock	■
Loan payment	■
Other	■
Net financing cash flows	■
Ending cash	■



How Do Accounting Judgments Affect Cash Flow Statements?

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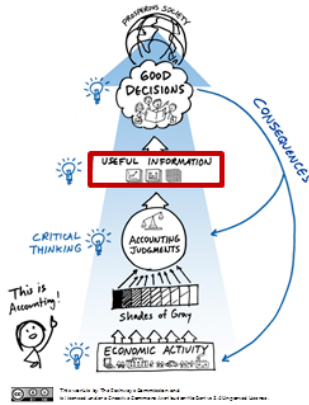
How do accounting judgments affect cash flow statements?

Direct Cash Flow Statement		Indirect Cash Flow Statement	
Beginning cash	■	Beginning cash	■
Operating		Operating	
Customer collections	■	Net income	■
Supplier payments	■	Adjustments	■
Other	■		
Net cash from operations	■	Net cash from operations	■
Investing		Investing	
Purchase building & equipment	■	Purchase building & equipment	■
Sell investment securities	■	Sell investment securities	■
Other	■	Other	■
Net investing cash flows	■	Net investing cash flows	■
Financing		Financing	
Issue common stock	■	Issue common stock	■
Loan payment	■	Loan payment	■
Other	■	Other	■
Net financing cash flows	■	Net financing cash flows	■
Ending cash	■	Ending cash	■

What Determines Usefulness?

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What determines the usefulness of cash flow statement information?



- Assess how effectively cash was managed
- Predict capacity to meet future cash needs and distribute cash to owners.