

Statement of cash flows

-- presents the changes in the cash balance during the accounting period.

CASH FLOWS = Changes in cash balance [Cash Inflows and Cash Outflows]

CASH BALANCE = Amount of cash at any given point in time.

CASH FLOW ITEMS

Cash flow items must be categories into three categories

-- OPERATING, INVESTING, AND FINANCING

Examples of Cash Flows from Operating Activities

Cash received from sales or services

Cash paid for wages, rent, insurance, utilities, etc.

Cash paid for merchandises and/or raw materials

Examples of Cash Flows from Investing Activities

Cash paid for the acquisition of PPE

Cash received from sale of PPE

Cash paid in lending transactions -- Notes receivable

Cash received from lending transactions -- Notes collected

Examples of Cash Flows from Financing Activities

Cash received from borrowing transactions

Cash received from bonds issuance

Cash received from share issuance (Ordinary shares/Preferred shares)

Cash paid for dividends

Cash paid for interests

Cash paid for treasury shares

Cash paid to retire bonds

OPERATING CASH FLOWS: DIRECT AND INDIRECT METHOD

Cash flows from operating activities -- Direct method:

List major cash flow items under the operating activities

Cash received from sales	XXX
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Cash paid for merchandises purchased	(xx)
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Cash paid for operating expenses	(xx)
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NET cash flows from operating activities	<u>OCF</u>
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Cash flows from operating activities -- Indirect method:

Adjust the net income number to be OCF

Net income	NI
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Adjustments:

(1) Noncash items	xx (xx)
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(2) Nonoperating items	xx (xx)
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(3) Changes in current assets and liabilities	xx (xx)
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NET cash flows from operating activities	<u>OCF</u>
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CALCULATION OF OPERATING CASH FLOWS UNDER INDIRECT METHOD**Statement of Income**

Sales revenue	1,500
- Cost of goods sold	(600)
- Other operating expenses eg. Wages, rent, etc.	(400)
- Depreciation expense	(100)
+ Gain on sales of land	300
- Loss on sale of machine	(200)
Net income	500

Statement of Cash Flows**Cash flows from operating activities -- Indirect method**

Net income	500
Adjustments:	
(1) Noncash items	
+ Depreciation expense	100
(2) Nonoperating activities	
- Gain on sales of land	(300)
+ Loss on sale of machine	200
(3) Changes in current assets and liabilities	
- Increases in current assets	
>> accounts receivable, inventory, prepaid expenses	(100)
+ Decreases in current assets	
>> accounts receivable, inventory, prepaid expenses	50
+ Increases in current liabilities	
>> accounts payable, accrued expenses, unearned revenues	250
- Decreases in current liabilities	
>> accounts payable, accrued expenses, unearned revenues	(120)
NET cash flows from operating activities	580

Example: Prepare the statement of cash flows from the information given below:

Company A
Statement of Income
For the Years Ended December 31, 20X2
(In Baht)

Sales		2,540,000
Cost of goods sold	1,257,500	
Wages and other operating expenses	860,000	
Interest expense	27,000	
Depreciation expense	50,000	(2,194,500)
		345,500
Other gains (losses)		
Gain on sale of plant assets	10,000	
Loss on retirement of bonds	(8,000)	2,000
Income before taxes		347,500
Income taxes expense		(69,500)
Net income		278,000

Company A
Statement of Financial Position
As of December 31, 20X2 and 20X1
(In Baht)

	20X2	20X1	Changes
Assets			
Current assets			
Cash	594,000	664,000	(70,000)
Accounts receivable	120,000	250,000	(130,000)
Merchandise inventory	84,000	70,000	14,000
Prepaid expenses	12,000	4,000	8,000
Total current assets	810,000	988,000	(178,000)
Noncurrent assets			
Plant assets	850,000	560,000	290,000
Less: Accumulated depreciation	(60,000)	(48,000)	(12,000)
Plant assets, net	790,000	512,000	278,000
Total assets	1,600,000	1,500,000	100,000
Liabilities			
Current liabilities			
Accounts payable	10,000	12,000	(2,000)
Interest payable	18,000	4,000	14,000
Income taxes payable	22,000	34,000	(12,000)
Total current liabilities	50,000	50,000	0
Long-term bonds payable	500,000	700,000	(200,000)
Total liabilities	550,000	750,000	(200,000)
Equity			
Ordinary shares	800,000	600,000	200,000
Retained earnings	250,000	150,000	100,000
Total equity	1,050,000	750,000	300,000
Total liabilities and equity	1,600,000	1,500,000	100,000

Additional Information:

- Company acquired property, plant, and equipment for \$400,000 cash.
- Company sold property, plant, and equipment for \$82,000 cash and realized a gain on sale of \$10,000.
- Company early retired the bonds payable by paying \$208,000 cash and realized a loss on retirement of \$8,000.
- Company issued ordinary shares for \$200,000 cash.
- Company declared and paid dividends for \$178,000.

Company A
Statement of Cash Flows
For the Year Ended December 31, 20X2
(in Baht)

Cash flows from operating activities		
Net income		278,000
Adjustments:		
Noncash items		
+ Depreciation expense	50,000	
Nonoperating items		
- Gain on sale of plant assets	(10,000)	
+ Loss on retirement of bonds	8,000	
Changes in current assets and liabilities		
+ Decreases in Accounts receivable	130,000	
- Increases in Merchandise inventory	(14,000)	
- Increases in Prepaid expenses	(8,000)	
- Decreases in Accounts payable	(2,000)	
+ Increases in Interest payable	14,000	
- Decreases in Income taxes payable	(12,000)	
		156,000
Net cash flows from operating activities		434,000 OCF
Cash flows from investing activities		
Cash paid for the acquisition of the PPE	(400,000)	
Cash received from the sale of the PPE	82,000	
Net cash flows from investing activities		(318,000) ICF
Cash flows from financing activities		
Cash paid for bond retirement	(208,000)	
Cash received from share issuance	200,000	
Cash paid for dividend	(178,000)	
Net cash flows from financing activities		(186,000) FCF
Net change in cash		(70,000) OCF+ICF+FCF
Beginning cash balance		664,000
Ending cash balance		594,000