

# Intro to the Statement of Cash Flows With Sage 50 Complete Accounting Section 0160A

## Presentation Objectives

The goal of this section is to present the following concepts to the reader.

1. An introduction into the statement of cash flows.
2. Recap of the flow of values through the four basic financial statements.
3. Accessing Sage 50 Complete Accounting financial statements.
4. The required financial statements for construction the statement of cash flows.
5. Constructing the operating activities section of the indirect statement of cash flows.
6. Constructing the operating activities section of the direct statement of cash flows.
7. Constructing the investing activities section of the statement of cash flows.
8. Constructing the financing activities section of the statement of cash flows.
9. The Change in Cash and Reconciliation to the Cash Accounts

## Contents

Presentation Objectives.....	1
Rule #1 of Life.....	3
Intro to the Statement of Cash Flows.....	3
Support File.....	4
The Flow of the Four Basic Financial Statements .....	5
Accessing Sage 50 Complete Accounting Financial Reports.....	6
Required Financial Statements.....	9
Income Statement.....	10
Statement of Retained Earnings.....	10
Balance Sheet.....	11
Indirect Statement of Cash Flows - Complete .....	12
Operating Activities of the Indirect Statement of Cash Flows - Detail .....	13
Non-Cash Events .....	13
Adjustment for Cash Received from Customers.....	13

Adjustment for Cash Received from Interest Revenues .....	13
Adjustment for Cash Received from Dividends Revenues.....	14
Adjustment for Changes in Inventory .....	14
Adjustment for Changes in Accounts Payable.....	15
Combined Inventory and Accounts Payable Section.....	15
Adjustment for Changes in Salaries Payable .....	15
Adjustment for Changes in Other Operations Expenses and Accrued Liabilities .....	16
Wrap-up of Operating Activities of the Indirect Statement of Cash Flows - Detail.....	17
Operating Activities of the Direct Statement of Cash Flows - Detail.....	17
Cash Collections from Customers.....	17
Cash Receipts from Interest .....	18
Cash Receipts from Dividends.....	18
Cash Payments to Suppliers.....	19
Cash Payments for Other Operations Expenses.....	19
Cash Payments to Employees .....	20
Cash Payments for Interest .....	20
Cash Payments for Income Taxes.....	20
Wrap-up of Operating Activities of the Direct Statement of Cash Flows - Detail .....	21
Investing Activities of the Statement of Cash Flows - Detail.....	21
Cash Outflows in the Acquisition of Fixed Assets .....	21
Cash Inflows from the Disposal of Fixed Assets .....	21
Wrap-up of Investing Activities of the Statement of Cash Flows - Detail .....	23
Financing Activities of the Statement of Cash Flows - Detail.....	23
Cash Inflows Through the Issuance of Long-term Debt.....	23
Cash Inflows from the Issuance of Stock.....	24
Cash Outflows for Payments on Long-term Debt.....	24
Cash Outflows for Payments of Dividends.....	24
Cash Outflows for the Acquisition of Treasury Stock.....	25
Wrap-up of Financing Activities of the Statement of Cash Flows - Detail .....	25
The Change in Cash and Reconciliation to the Cash Accounts .....	26
Copyright, Patent, Trademark, Trade Logo, and Service Marks Acknowledgements.....	28

Sage Software, Inc. ....	28
Texas Instruments Incorporated.....	28
Microsoft Corporation .....	28
Adobe Systems Incorporated .....	28
Index.....	29

### **Rule #1 of Life**

One of the first rules of **LIFE** is when someone tells you something is hard or too hard for you, ask “Why?” Think about it, it was done and someone did it, why can’t you? Many will tell you that the statement of cash flows is too hard. If you put this in the front of your mind, you will never learn the statement of cash flows. The statement of cash flows is VERY logical, very orderly, and VERY easy to construct if you take it one-step at a time regardless of direct or indirect method.

### **Intro to the Statement of Cash Flows**

Most companies do use the indirect statement of cash flows for publicly released financial because it conceals data. Reality is competitors are going to read the released financials to a greater degree than your own investors / owners will. Your competitors want to profit and gain from the costs you have incurred. So, why have two methods if you are going to release the indirect method? No company can manage from “adjustments to net income” so companies use the direct method for management. You need to know both. The really good side is that of the three, four, or five sections of the statement of cash flows, depending on how you want to count, only the operations section is different.

Both the indirect and direct statement of cash flows have the same three line header. Then the indirect method adjusts net income from the income statement to present cash flows associated with operations. Operations is what you do most of the time for your main stream business activity. For a big box retailer, it is buying and selling merchandise inventory. The direct method starts with cash received from customers and follows with cash paid to vendors. The operations section is

primarily associated with the income statement values. The difference in the two methods is detail in the operations section.

The next section is cash flows associated with investments. Investments are ways to earn revenues. This is property, plant, and equipment (PPE) or land, buildings, furnishing, etc. These cash flows give you the ability to earn revenues. You have a parcel of land, you erect a building on it, you furnish it with display cases and racks, cash registers, etc. These are values that change in the normal course of your main line of business. These values are associated with fixed assets and debt not associated with daily operations on the balance sheet. When you see gains and losses on the income statement, they will most likely be associated with the investment section of the statement of cash flows.

The next section is the cash flows associated with finance. This is owners' equity such as stocks and dividends, and long-term debt. The values in this section are most commonly associated with long-term debt and values associated with owners' equity changes shown on the statement of retained earnings and on the balance sheet.

The final section is the reconciliation of changes in cash to the beginning and ending of the cash accounts on the comparative balance sheets. Count them as five, header, operations, investments, finance, and reconciliation, count them as four, operations, investments, finance, and reconciliation, count them as three operations, investments, and finance. Does not really matter. Together you have the statement of cash flows.

### **Support File**

There is a Microsoft Excel reference file, 0160A-Intro to the Statement of Cash Flows With Sage 50 Complete Accounting-2015-01-01, for this chapter. It has color codes and arrows to show you where it all comes from and where it all goes to. Scroll down to see the four financials, the income statement, the statement of retained earnings, the balance sheet, and the statement of cash flows in proper order.

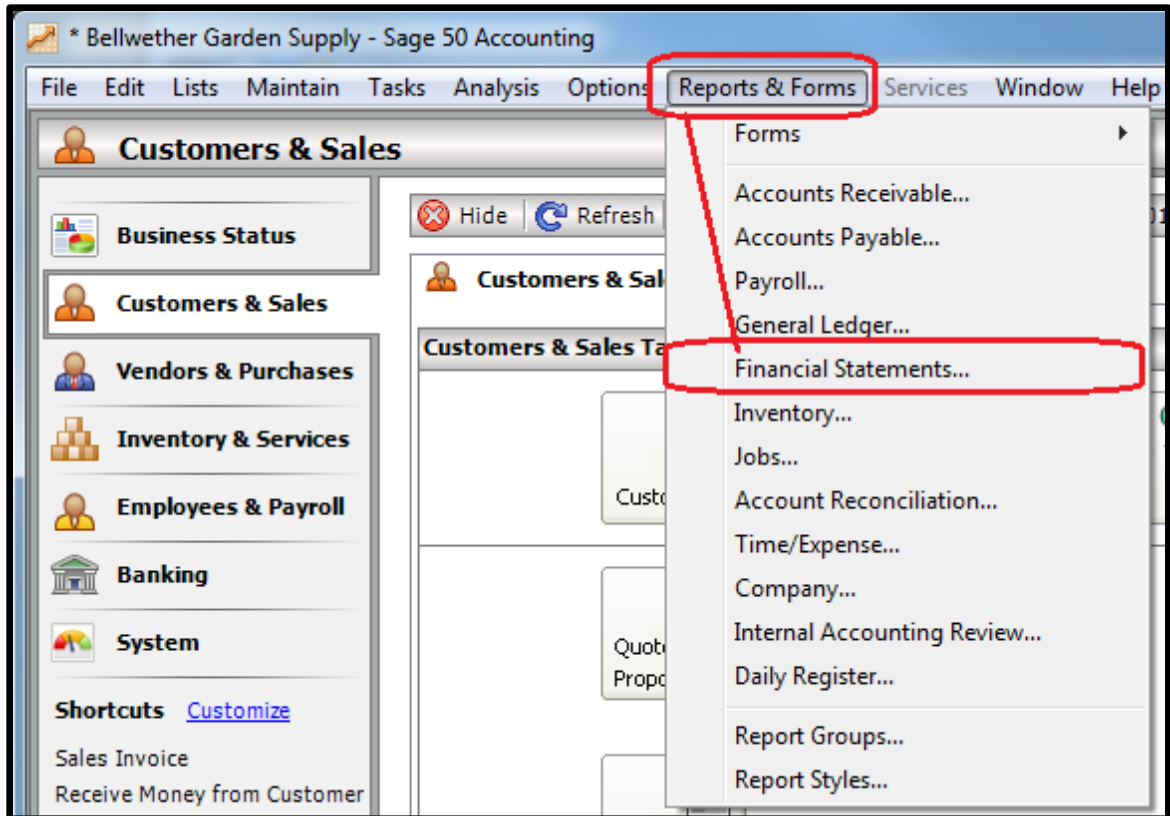
## **The Flow of the Four Basic Financial Statements**

As presented in the 0120 series, Intro to Financial Statements with Sage 50 Complete Accounting, there are four financial statements and they flow in a sequence of the income statement, the retained earnings statement, balance sheet, and the statement of cash flows. The income statement and balance sheet have rather intense interactions passing through the statement of retained earnings as shown in the 0120 series. Computerized accounting applications such as Sage 50 Complete Accounting are primarily management and data manipulation tools. This is not a negative comment, the primary activity of management is to manage, not report, and presented information needs to be of assistance in that process. The output of these systems frequently does not meet the needs or desires for publicly released financial statements. If you look at the several of the reference files for company reporting in the Class Support Files directory you will see that the financials are “comparative,” showing more than one year in all reports. This comparative presentation is usually done outside of the computerized accounting package in use by the company, often within an application such as Microsoft Excel. This is most likely one of the reasons Sage 50 Complete Accounting has export tools to Microsoft Excel in almost all reports.

In this section we will look at the two methods of presenting the statement of cash flows, the direct and indirect methods. Since the Sage Publishing sample companies, Bellwether Garden Supply and Stone Arbor Landscaping do not have adequate materials for this section we will start with Bellwether and shift to a company I created to show you how the statement of cash flows works. All of the material necessary for this section are in this section and on the reference file for this section.

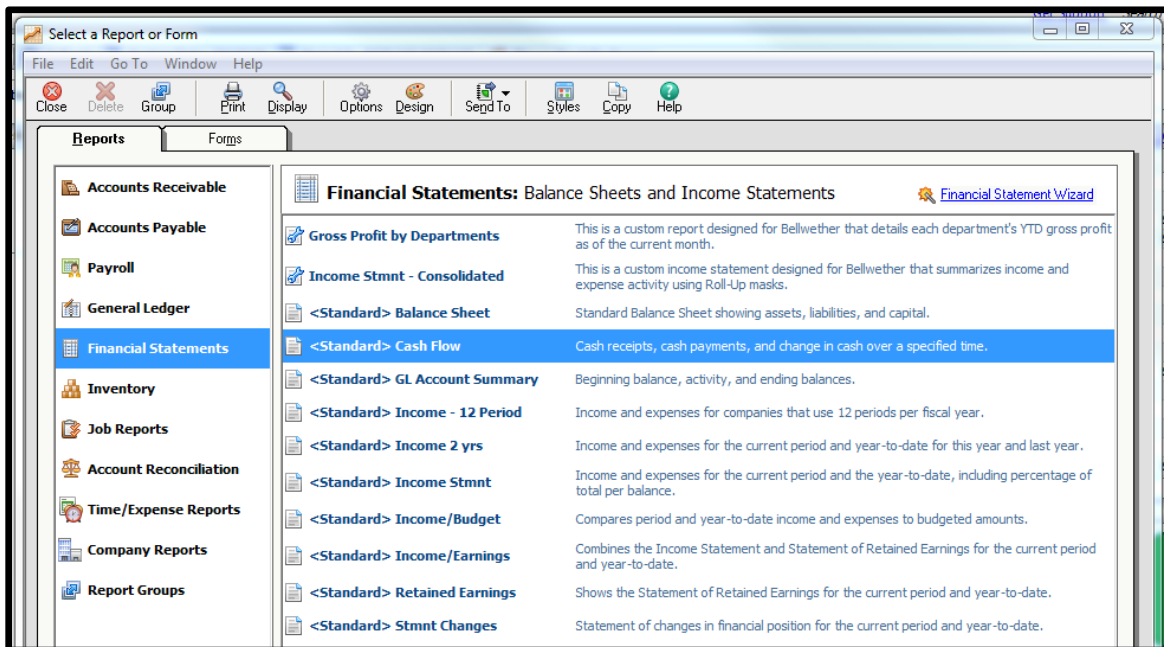
## Accessing Sage 50 Complete Accounting Financial Reports

By clicking on Forms & Reports of the menu bar of Sage 50 Complete Accounting you will attain access to the drop-down menu options.

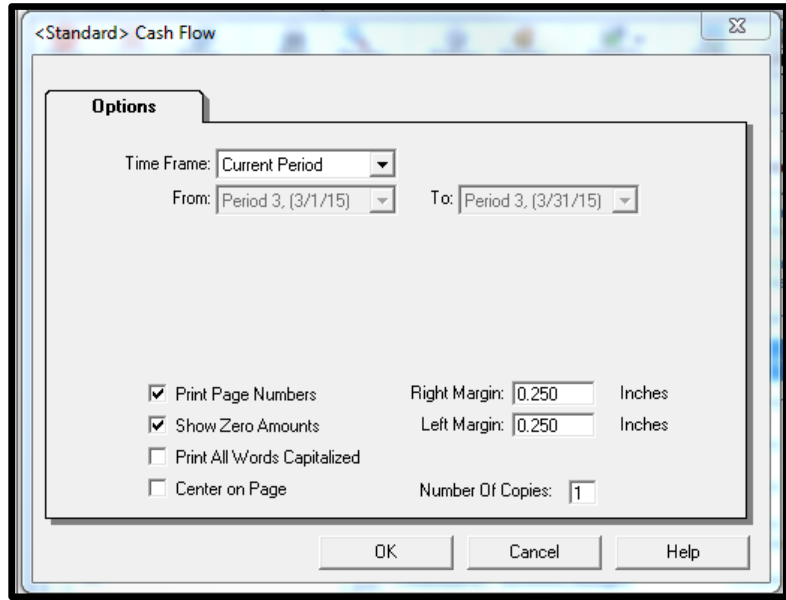


Click on the Financial Statements option to access the various financial statements available within Sage 50 Complete Accounting.

Within Sage 50 Complete Accounting there is one preformatted statement of cash flows and it utilizes the indirect method of presentation. The “<Standard>” in front of it lets you know that this is preformatted. You have the ability within Sage 50 Complete Accounting to create your own reports and establish the formats within some limits. All of these standard reports are actually reports focused on the needs of management presenting information for decision-making. The statement of cash flows for Bellwether Garden Supplies has been exported into the Microsoft Excel reference file, 0160A-Intro to the Statement of Cash Flows with Sage 50 Complete Accounting. It may have been slightly reformatted for easier reading and display.



Upon double-clicking on the <Standard> Cash Flow selection Sage 50 Complete Accounting presents this dialog box. Selecting the default provides the following screen print. This indirect method of presentation of the statement of cash flows. The alternate presentation being the direct method.



The header has the standard three lines – full, legal name, the title of the report, and the date range lines. I have carved this report up for this section presentation, the full presentation is in the Microsoft Excel reference file for this section.

	Current Month	Year to Date
<b>Cash Flows from operating activities</b>		
Net Income	\$ 4,338.93	\$ 32,441.36
Adjustments to reconcile net income to net cash provided by operating activities		
Accum. Depreciation-Furniture	420.80	1,262.40
Accum. Depreciation-Equipment	385.05	1,265.25
Accum. Depreciation-Vehicles	1,437.89	4,313.67
Contracts Payable- Current	0.00	0.00
Other Current Liabilities	150.00	150.00
Suspense - Clearing Account	0.00	0.00
<b>Total Adjustments</b>	<b>35,315.64</b>	<b>(23,005.99)</b>
<b>Net Cash provided by Operations</b>	<b>39,654.57</b>	<b>9,435.37</b>
<b>Cash Flows from investing activities</b>		
Used For		
Furniture and Fixtures	0.00	0.00
Equipment	0.00	0.00
Other	0.00	0.00
Notes Receivable- Noncurrent	0.00	0.00
Other Noncurrent Assets	0.00	0.00
<b>Net cash used in investing</b>	<b>0.00</b>	<b>0.00</b>
<b>Cash Flows from financing activities</b>		
Proceeds From		
Notes Payable-Noncurrent	0.00	0.00
Contracts Payable- Noncurrent	0.00	0.00
Common Stock	0.00	0.00
Paid-in Capital	0.00	0.00
Dividends Paid	0.00	0.00
<b>Net cash used in financing</b>	<b>0.00</b>	<b>0.00</b>
<b>Net increase &lt;decrease&gt; in cash</b>	<b>\$ 39,654.57</b>	<b>\$ 9,435.37</b>
<b>Summary</b>		
Cash Balance at End of Period	\$ 36,778.92	\$ 36,778.92
Cash Balance at Beg of Period	2,875.54	(27,343.66)
<b>Net Increase &lt;Decrease&gt; in Cash</b>	<b>\$ 39,654.46</b>	<b>\$ 9,435.26</b>

This report is showing that Bellwether has a net income of \$32,441.36 for the three months ended March 31, 2015. With that presentation of net income, we know that this is the indirect method. The next block of text on the left tells us that adjustments are being made to reconcile net income to cash provided by operations. Second clue that this is the indirect method. With the adjustments, some are adding values while others are subtracting values. The logic goes like this, Depreciation is a non-cash expense which reduced revenues on the income statement to arrive at net income. Therefore it is added back to net income. If Accounts Receivable INCREASED customers made purchases greater than



payments received and that reduces cash as indicated by net income. This logic will be shown in detail later. The key is one step at a time. Then it is easy.

In this abbreviated screen print you will see that there are no cash flows associated with investments or financing. So we need to step out of Sage 50 Complete accounting and step into a company I structured for this section.

Note: Memory aid associated with the statement of cash flows – reverse alphabetical order – Operations, Investments, and Finance. And, with the balance sheet in book format, they pretty much follow the financials. Operations – income statement and the upper left side of the balance sheet – current assets. Investments – the lower left corner of the balance sheet with fixed assets and the upper right corner for some liabilities. Then Finance – the lower portion of liabilities – long-term, and the lower right corner of the balance sheet, owners' equity.

### **Required Financial Statements**

You need an income statement, a statement of retained earnings helps but you can figure Dividends out without one, and you need a comparative balance sheet. A comparative balance sheet has beginning and ending balances so you can see the changes related to accounts shown. Both the indirect and direct method are shown here based on the same company. Here are the financials.

## Income Statement

<b>Miramar Student Sales Co.</b>		
<b>Income Statement</b>		
<b>For the Year Ending March 31, 2015</b>		
Revenues:		
Sales Revenues	\$295,000	
Interest Revenues	6,500	
Dividend Revenues	4,750	
Total Revenues		\$306,250
Cost of Goods Sold		118,000
Gross Profit		188,250
Expenses:		
Salaries Expense	49,000	
Depreciation Expense	19,500	
Other Operating Expenses	8,000	
Interest Expense	7,250	
Income Tax Expense	17,500	
Total Expenses		101,250
Income from Operations		87,000
Loss on Disposal of Fixed Assets		(4,000)
Net Income		\$83,000

## Statement of Retained Earnings

<b>Miramar Student Sales Co.</b>	
<b>Statement of Retained Earnings</b>	
<b>For the Year Ending March 31, 2015</b>	
Retained Earnings, April 1, 2014	\$121,000
Add: Net Income	83,000
	204,000
Less: Dividends	16,000
Retained Earnings, March 31, 2015	\$188,000

## Balance Sheet

<b>Miramar Student Sales Co.</b>			
<b>Balance Sheet</b>			
<b>March 31,</b>			
	<b>2014:</b>	<b>2015:</b>	<b>Change:</b>
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash	\$11,000	\$27,500	\$16,500
Accounts Receivable	93,000	101,000	8,000
Interest Receivable	0	750	750
Dividends Receivable	900	500	(400)
Merchandise Inventory	124,000	147,500	23,500
<b>Total Current Assets</b>	<b>228,900</b>	<b>277,250</b>	<b>48,350</b>
<b>Property, Plant, and Equipment:</b>			
Equipment	366,000	437,500	71,500
Less: Depreciation	51,000	55,000	4,000
<b>Total PPE</b>	<b>315,000</b>	<b>382,500</b>	<b>67,500</b>
<b>Total Assets</b>	<b>\$543,900</b>	<b>\$659,750</b>	<b>\$115,850</b>

<b>Liabilities and Stockholders' Equity:</b>			
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$94,150	\$69,250	(\$24,900)
Salaries Payable	2,750	1,500	(1,250)
Accrued Liabilities	8,000	12,000	4,000
<b>Total Current Liabilities</b>	<b>104,900</b>	<b>82,750</b>	<b>(22,150)</b>
Long-term Notes Payable	98,000	147,000	49,000
<b>Total Liabilities</b>	<b>202,900</b>	<b>229,750</b>	<b>26,850</b>
<b>Stockholders' Equity</b>			
Common Stock	220,000	260,000	40,000
Retained Earnings	121,000	188,000	67,000
Less: Treasury Stock	0	(18,000)	18,000
<b>Total Stockholders' Equity</b>	<b>341,000</b>	<b>430,000</b>	<b>125,000</b>
<b>Total Lia and Stockholders' Equity:</b>	<b>\$543,900</b>	<b>\$659,750</b>	<b>\$115,850</b>

## Indirect Statement of Cash Flows - Complete

Statement of cash flows using the indirect method, detail will follow.

<b>Miramar Student Sales Co.</b>		
<b>Statement of Cash Flows</b>		
<b>For the Year Ending March 31, 2015</b>		
<b>Cash Flows from Operating Activities:</b>		
Net Income		\$83,000
Depreciation Expense (Non-cash expense)	\$19,500	
Add Loss on Disposal of F/A - (Non-cash)	4,000	
Deduct increase in Accounts Receivable	(8,000)	
Deduct increase in Interest Receivable	(750)	
Add decrease in Dividends Receivable	400	
Deduct increase in Inventory	(23,500)	
Deduct decrease in Accounts Payable	(24,900)	
Deduct decrease in Salaries Payable	(1,250)	
Add increase in Accrued Liabilities	4,000	
Total cash payments		(30,500)
Cash Provided by Operating Activities		52,500
<b>Cash Flows from Investing Activities:</b>		
Acquisition of Fixed Assets	(195,000)	
Proceeds from the Disposal of Fixed Assets	104,000	
Cash Provided by Investing Activities		(91,000)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from the Issuance of Long-term N/P	75,000	
Proceeds from the Issuance of C/S	40,000	
Payment of Long-term N/P	(26,000)	
Payment of Dividends	(16,000)	
Acquisition of Treasury Stock	(18,000)	
Cash Provided by Investing Activities		55,000
Net Increase in Cash		16,500
Cash Balance, April 1, 2014		11,000
Cash Balance, March 31, 2015		\$27,500

## Operating Activities of the Indirect Statement of Cash Flows - Detail

The indirect statement of cash flows starts with Net Income and makes adjustments to attain cash provided by or used by operating activities.

Net Income	\$83,000
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### Non-Cash Events

Look at the income statement for non-cash events such as depreciation, gains and losses, and amortization. If they decrease revenues moving to net income on the income statement, add them back in. If they increase revenues, deduct them. This is the statement of cash flows and starting with the value of Net Income, they are reversed.

Depreciation Expense	19,500
Loss on Disposal of Fixed Assets	(4,000)

**Note:** Throughout this section you will see this **Moving Subtotal** line which shows the current subtotal and how you got it as a learning aid. Each starts with the preceding Moving Subtotal value.

**Moving Subtotal at this point - \$83,000 + \$19,500 + \$4000 = \$106,500**

### Adjustment for Cash Received from Customers

The amount of cash received from customers is the Sales Revenues plus any decrease in Accounts Receivable or less any increase in Accounts Receivable. Do not over think this. It does not matter who paid how much or when they paid it, do not worry about transactions from previous periods.

<b>Computation of Change in Accounts Receivable:</b>	
Beginning Balance, Accounts Receivable	\$93,000
Ending Balance, Accounts Receivable	101,000
Deduct increase in Accounts Receivable	<b>(\$8,000)</b>

**Moving Subtotal at this point - \$106,500 - \$8,000 = \$98,500**

### Adjustment for Cash Received from Interest Revenues

Interest Revenue is one of the optional items in accounting. Some prefer it in Operating Activities, some prefer it in Investing Activities. If you are working with a textbook, follow its example. If you are working with a company, find out from previous statements of cash flows where they put it. You must be consistent. I am

placing it in the Operating Activities as a preference. My company borrowed money so I could operate and operate means operations.

The Net Income on the income statement has \$6,500 in Interest Revenue. Since there was no beginning balance in Interest Receivable and there is an ending balance of \$750, it means that only  $(\$6,500 - \$750)$  \$5,750 was received. Since we are working with adjustments, remove \$750 from Net Income for the \$750 in Interest Revenue not received.

<b>Computation of Interest Receivable</b>	
Beginning Balance, Interest Receivable	\$0
Ending Balance, Interest Receivable	750
Deduct increase in Interest Receivable	<b>(\$750)</b>

**Moving Subtotal at this point - \$98,500 - \$750 = \$97,750**

### **Adjustment for Cash Received from Dividends Revenues**

Dividends Revenues on the income statement may not be the dividends received. Accrual accounting, record it as an income related event when earned, not when received. In this case you have a beginning balance of \$900 and an ending balance of \$500 in Dividends Receivable. You received \$400 more than earned and we are working on the statement of cash flows. Add the \$400.

<b>Computation of Dividends Receivable</b>	
Beginning Balance, Dividends Receivable	\$900
Ending Balance, Dividends Receivable	500
Add decrease in Dividends Receivable	\$400

**Moving Subtotal at this point - \$97,750 + \$400 = \$98,150**

### **Adjustment for Changes in Inventory**

You need to follow the textbook concept on this. I prefer to handle each line individually and in order. Many textbooks will combine Accounts Payable and Inventory account changes together into one value. Inventory had a beginning balance of \$124,000 and an ending balance of \$147,500. You paid for an additional \$23,500 for inventory not associated with Accounts Payable. Deduct this \$23,500. Part of this value is in the Cost of Goods Sold. See the “Combined

Inventory and Accounts Payable Section” following the Adjustments to Accounts Payable Section.

<b>Computation of Change in Inventory:</b>	
Beginning Balance, Inventory	\$124,000
Ending Balance, Inventory	147,500
Deduct increase in Inventory	<b>(\$23,500)</b>

**Moving Subtotal at this point - \$98,150 - \$23,500 = \$74,650**

### Adjustment for Changes in Accounts Payable

Accounts Payable is associated with Cost of Goods Sold and in many textbooks they combine Inventory and Accounts Payable changes into one value. I prefer to handle each value separately and in order. Check the “Combined Inventory and Accounts Payable Section” to follow for that option.

Accounts Payable started with a beginning balance of \$94,150 and has an ending balance of \$69,250. This indicates additional payments not associated with Cost of Goods Sold on the income statement. Deduct this value.

<b>Computation of Change in Accounts Payable:</b>	
Beginning Balance, Accounts Payable	\$94,150
Ending Balance, Accounts Payable	69,250
Deduct decrease in Accounts Payable	<b>(\$24,900)</b>

**Moving Subtotal at this point - \$74,650 - \$24,900 = \$49,750**

### Combined Inventory and Accounts Payable Section

When one line is used in the statement of cash flows, it may be presented as this.

<b>Computation of Change in Inventory and Accounts Payable:</b>	
Deduct increase in Inventory	<b>(\$23,500)</b>
Deduct decrease in Accounts Payable	<b>(\$24,900)</b>
Additional Cash Paid to Vendors	<b>(\$48,400)</b>

### Adjustment for Changes in Salaries Payable

Salaries Expense under accrual accounting rules is the obligation incurred during the stated period. However, the changes in the Salaries Payable account determines the cash paid for salaries. Like the previous adjustments, Net Income has a Salaries Expense of \$49,000, however, the change from a beginning balance of \$2,750 to

an ending balance of \$1,500, a change of \$1,250, indicates more funds were paid than obligations incurred. Deduct this additional \$1,250 in the calculation process.

<b>Computation of Change in Salaries Payable:</b>	
Beginning Balance, Salaries Payable	\$2,750
Ending Balance, Salaries Payable	1,500
Deduct decrease in Salaries Payable	<b>(\$1,250)</b>

**Moving Subtotal at this point - \$49,750 - \$1,250 = \$48,500**

### **Adjustment for Changes in Other Operations Expenses and Accrued Liabilities**

Since Accrued Liabilities increased by \$4,000, not all of the Other Operating Expenses as shown on the income statement were paid. Add this \$4,000 increase in your adjustments.

<b>Computation of Change in Other Op Expenses</b>	
Beginning Balance, Accrued Liabilities	\$8,000
Ending Balance, Accrued Liabilities	12,000
Add increase in Accrued Liabilities	\$4,000

**Moving Subtotal at this point - \$48,500 - \$4,000 = \$52,500**



### Wrap-up of Operating Activities of the Indirect Statement of Cash Flows - Detail

At this point there are not more lines to address. The adjustments to Net Income of \$83,000, as shown in the income statement total \$30,500. The result is operating activities resulted in cash inflows of \$52,500. The Investing and Financing sections are the same in both the indirect and direct sections.

It looks like this as an assembly.

<b>Cash Flows from Operating Activities:</b>		
Net Income		\$83,000
Depreciation Expense (Non-cash expense)	\$19,500	
Add Loss on Disposal of F/A - (Non-cash)	4,000	
Deduct increase in Accounts Receivable	(8,000)	
Deduct increase in Interest Receivable	(750)	
Add decrease in Dividends Receivable	400	
Deduct increase in Inventory	(23,500)	
Deduct decrease in Accounts Payable	(24,900)	
Deduct decrease in Salaries Payable	(1,250)	
Add increase in Accrued Liabilities	4,000	
Total cash payments		(30,500)
Cash Provided by Operating Activities		\$52,500

### Operating Activities of the Direct Statement of Cash Flows - Detail

#### Cash Collections from Customers

The direct method presentation of cash flows starts with the cash collections from customers. The first thought is that cash received from customers would be Sales Revenues. However, the change in Accounts Receivable influences cash received from customers. **DO NOT OVER THINK THIS!** If Accounts Receivable went up, cash collections are lower, if Accounts Receivable went down, cash receipts went up. Keep it simple.

<b>Computation of Collections from Customers:</b>	
Sales Revenues	\$295,000
Less increase in A/R	(8,000)
Collections from customers	\$287,000

**Moving Subtotal at this point - \$287,000**

### Cash Receipts from Interest

Like other values, Interest Revenues is an accrued value on the income statement. The actual funds received as Interest is the declared value of \$6,500 on the income statement less the increase of \$750 in the Interest Receivable account on the balance sheet.

<b>Computation of Collections from Interest:</b>	
Interest Revenues	\$6,500
Less increase in Interest Receivable	(750)
Collections from interest	\$5,750

**Moving Subtotal at this point - \$287,000 + \$5,750 = \$292,750**

### Cash Receipts from Dividends

Like other values, Dividend Revenues is an accrued value on the income statement. The actual funds received as Dividends is the declared value of \$4,750 on the income statement plus the decrease of \$400 in the Dividends Receivable account on the balance sheet.

<b>Computation of Collections from Dividends:</b>	
Dividend Revenues	\$4,750
Plus decrease in Dividends Receivable	400
Collections from dividends	\$5,150

**Moving Subtotal at this point - \$292,750 + \$5,150 = \$297,900**

### Cash Payments to Suppliers

In the direct method of cash flows it just seems logical to interlace these accounts. The Cost of Goods Sold is the base, it is increased by decreases in Accounts Payable, or decreased by increases in Accounts Payable. Then it is increased by increases in Inventory or decreased by decreases in Inventory to provide a single value paid to vendors. In this calculation it is  $(\$118,000 + \$24,900 + \$23,500)$  \$166,400.

Computation of Payments to Suppliers	
Cost of Goods Sold	\$118,000
Plus decrease in Accounts Payable	24,900
Plus increase in Inventory	23,500
Payments to suppliers	\$166,400

**Moving Subtotal at this point - \$297,900 - \$166,400 = \$131,500**

### Cash Payments for Other Operations Expenses

With this one how account titles are written may vary. The income statement shows an incurred expense for Other Operating Expenses of \$8,000. However, the liability account of Accrued Liabilities increased by \$4,000 so only \$4,000 were actually paid for these expenses.

Computation of Payments for Other Op Expenses	
Other Operating Expenses	\$8,000
Less increase in Accrued Liabilities	(4,000)
Payments for other operating expenses	\$4,000

**Moving Subtotal at this point - \$131,500 - \$4,000 = \$127,500**

### Cash Payments to Employees

The income statement has a Salaries Expense of \$49,000 and the balance sheet shows a decrease in Salaries Payable so a total of  $(\$49,000 + \$1,250)$  \$50,250 as the actual cash paid.

<b>Computation of Payments to Employees</b>	
Salaries Expense	\$49,000
Plus decrease in Salaries Payable	1,250
Payments to employees	\$50,250

**Moving Subtotal at this point - \$127,500 - \$50,250 = \$77,250**

### Cash Payments for Interest

Cash payments for interest follow the trend. If Interest Payable on the balance sheet had increased, then the actual cash paid for interest is less than the value shown for Interest Expense. There is no Interest Payable account on the balance sheet so an actual value of \$7,250 was paid.

<b>Computation of Payments for Interest</b>	
Interest Expense	\$7,250
No Interest Payable issues	0
Payments for interest	\$7,250

**Moving Subtotal at this point - \$77,250 - \$7,250 = \$70,000**

### Cash Payments for Income Taxes

Cash payments for income taxes follow the trend. If Income Taxes Payable on the balance sheet had increased, then the actual cash paid for income taxes is less than the value shown for Income Taxes Expense. There is no Income Taxes Payable account on the balance sheet so an actual value of \$17,500 was paid.

<b>Computation of Payments for Income Taxes</b>	
Income Tax Expense	\$17,500
No Income Taxes Payable issues	0
Payments for interest	\$17,500

**Moving Subtotal at this point - \$70,000 - \$17,500 = \$52,500**

### Wrap-up of Operating Activities of the Direct Statement of Cash Flows - Detail

At this point, there are not more lines to address. The direct calculations result in the same \$52,500 that was determined using the indirect method as the cash supplied or provided by operating activities. Now you know have detail. Are your customers paying you, are you paying your vendors, etc. Information you need to know to make decision. It looks like this as an assembly.

<b>Cash Flows from Operating Activities:</b>		
Receipts:		
Collections from customers	\$287,000	
Interest received	5,750	
Dividends received	5,150	
Total cash receipts		\$297,900
Payments		
To suppliers	166,400	
For accrued liabilities	4,000	
To employees	50,250	
For interest	7,250	
For income taxes	17,500	
Total cash payments		245,400
Cash Provided by Operating Activities		\$52,500

### Investing Activities of the Statement of Cash Flows - Detail

It does not matter, direct or indirect method, the investing activities and financing activities section are the same. As a “brain stimulant” the Operating Section is primarily the income statement. The Investing Section is primarily Property, Plant, and Equipment – Fixed assets.

#### Cash Outflows in the Acquisition of Fixed Assets

The system has to give you some information. It tells you that you paid \$195,000 for fixed assets so there is no calculation to process.

**Moving Subtotal at this point – (\$195,000)**

#### Cash Inflows from the Disposal of Fixed Assets

The solution to this takes logic and understanding. HOWEVER, handle the knowns first, do not focus on the unknowns and you will see them fall into the category of

knowns. The system tells you that you had a \$4,000 loss on the disposal of fixed assets in the income statement.

Loss on Disposal of Fixed Assets	(4,000)
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### Step 1:

Depreciation Expense on the income statement is \$19,500.

Depreciation Expense	19,500
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Accumulated Depreciation on the balance sheet increased by only (\$51,000 - \$55,000) \$4,000.

Less: Depreciation	51,000	55,000	4,000
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Therefore the Accumulated Depreciation on the fixed assets that were disposed is (\$19,500 less the \$4,000 increase in Accumulated Depreciation) \$15,500.

### Step 2:

From the balance sheet, the beginning balance of Equipment is \$366,000 and the ending balance is \$437,500. The increase is \$71,500.

Equipment	366,000	437,500	71,500
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Therefore,

Fixed Assets Changes:	
Beginning Balance:	\$366,000
Plus: Cash paid for new F/As:	195,000
Less: Historic cost of disposed F/A:	Unknown
Ending balance of fixed asset:	\$437,500

The value can also be determined as the difference between (\$366,000 + \$195,000) \$561,000 and \$437,500. The historic cost of disposed fixed assets is \$123,500 with \$15,000 in Accumulated Depreciation.

**Step 3:**

Cash received from disposal of fixed assets:	
Historic cost:	\$123,500
Less: Accumulated depreciation:	(15,500)
Book value:	108,000
Plus gain / less loss on disposal:	(4,000)
Cash received from disposal of fixed asset:	\$104,000

**Moving Subtotal at this point – (\$195,000) + \$104,000 = (91,000)**

Cash outflows for investing activities are \$91,000.

**Wrap-up of Investing Activities of the Statement of Cash Flows - Detail**

In the smooth presentation the cash flows of investing activities looks like this.

<b>Cash Flows from Investing Activities:</b>		
Acquisition of Fixed Assets	(195,000)	
Proceeds from the Disposal of Fixed Assets	104,000	
Cash Provided by Investing Activities		(91,000)

**Financing Activities of the Statement of Cash Flows - Detail**

It does not matter, direct or indirect method, the financing activities section is the same. As a “brain stimulant” the Operating Section is primarily the income statement. The Investing Section is primarily Property, Plant, and Equipment – Fixed assets. Financing is long-term debt and stock issues.

**Cash Inflows Through the Issuance of Long-term Debt**

From the balance sheet you have a beginning balance of \$98,000 and an ending balance of \$147,000. To make this a bit complex, the system tells you that the business made a \$26,000 payment on long-term notes payable.

Long-term Notes Payable	98,000	147,000	49,000
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Build another table of beginning balance to Ending balance with the known values and gaps for the unknown values.

Proceeds from the Issuance of Long-term N/P	
Beginning Balance:	\$98,000
Less: Cash payments during the period:	(26,000)
Plus: New Notes Payable proceeds:	Unknown
Ending balance of Notes Payable:	\$147,000

Only \$75,000 completes the equation. Cash inflows from the issuance of long-term debt is \$75,000.

**Moving Subtotal at this point – \$75,000**

### Cash Inflows from the Issuance of Stock

It becomes repetitious, the balance sheet shows Common Stock with a beginning balance of \$220,000 and an ending balance of \$260,000. This indicates that cash inflows associated with the issuance of stock was  $(\$260,000 - \$220,000)$  \$40,000.

Common Stock	220,000	260,000	40,000
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**Moving Subtotal at this point – \$75,000 + \$40,000 = \$115,000**

### Cash Outflows for Payments on Long-term Debt

The system tells you that the company paid \$26,000 in the servicing of long-term debt.

**Moving Subtotal at this point – \$115,000 - \$26,000 = \$89,000**

### Cash Outflows for Payments of Dividends

For every issue of cash flows in or out you need to check for an influencing receivable or payable account. Dividends are provided as an accrual value in the statement of retained earnings.

Less: Dividends	16,000
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There is no Dividends Payable account on the balance sheet so cash paid for dividends is \$16,000.

**Moving Subtotal at this point – \$89,000 - \$16,000 = \$73,000**



If this value is not provided, you can calculate it between the beginning and ending balance of retained earnings less the period net income.

Retained Earnings	121,000	188,000	67,000
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Net Income			\$83,000
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Retained earnings ending balance of \$188,000 – beginning balance of \$121,000 provides a change of \$67,000. Net income of \$83,000 less the change in Retained Earnings of \$67,000 results in an accrual value of \$16,000. Remember to check for a Dividends Payable issue.

### Cash Outflows for the Acquisition of Treasury Stock

The balance sheet shows that the beginning balance was \$0 and the ending balance was \$18,000. The cash outflows to acquire the treasury stock was \$18,000.

Less: Treasury Stock	0	(18,000)	18,000
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**Moving Subtotal at this point – \$73,000 - \$18,000 = \$55,000**

### Wrap-up of Financing Activities of the Statement of Cash Flows - Detail

In the smooth presentation the cash flows of financing activities looks like this.

<b>Cash Flows from Financing Activities:</b>		
Proceeds from the Issuance of Long-term N/P	75,000	
Proceeds from the Issuance of C/S	40,000	
Payment of Long-term N/P	(26,000)	
Payment of Dividends	(16,000)	
Acquisition of Treasury Stock	(18,000)	
Cash Provided by Investing Activities		55,000

### The Change in Cash and Reconciliation to the Cash Accounts

The final section of the statement of cash flows is the reconciliation of the changes in cash from the beginning balance to the ending balance of cash. That section is shown here, it is simple math. Even for General Mills, General Motors, and General Electric, this is to the penny.

Cash Provided by Operating Activities	\$52,500
Cash Used by Investing Activities	(91,000)
Cash Provided by Financing Activities	55,000
Net Increase in Cash	16,500
Cash Balance, April 1, 2014	11,000
Cash Balance, March 31, 2015	\$27,500



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## Index

	Intro to the Statement of Cash Flows ..... 3
	Investing Activities of the Statement of Cash Flows - Detail ..... 21
	<b>L</b>
	Learning Objectives ..... 1
	<b>M</b>
	Microsoft Corporation..... 28
	<b>N</b>
	Non-Cash Events - Indirect ..... 13
	<b>O</b>
	Operating Activities of the Direct Statement of Cash Flows - Detail..... 17
	Operating Activities of the Indirect Statement of Cash Flows - Detail..... 13
	<b>R</b>
	Required Financial Statements ..... 9
	Rule #1 of Life ..... 3
	<b>S</b>
	Sage Software, Inc..... 28
	Statement of Retained Earnings ..... 10
	Support File..... 4
	<b>T</b>
	Texas Instruments Incorporated ..... 28
	The Change in Cash and Reconciliation to the Cash Accounts..... 26
	The Flow of the Four Basic Financial Statements..... 5
	<b>W</b>
	Wrap-up Financing Activities of the Statement of Cash Flows - Detail ..... 25
	Wrap-up Investing Activities of the Statement of Cash Flows - Detail ..... 23
	Wrap-up Operating Activities of the Direct Statement of Cash Flows - Detail ..... 21
<b>A</b>	
Accessing Sage 50 Complete Accounting Financial Reports ..... 6	
Adjustment for Cash Received from Customers - Indirect13	
Adjustment for Cash Received from Dividends Revenues ..... 14	
Adjustment for Cash Received from Interest Revenues....13	
Adjustment for Changes in Accounts Payable.....15	
Adjustment for Changes in Inventory .....14	
Adjustment for Changes in Other Operations Expenses and Accrued Liabilities.....16	
Adjustment for Changes in Salaries Payable .....15	
Adobe Systems Incorporated .....28	
<b>B</b>	
Balance Sheet .....11	
<b>C</b>	
Cash Collections from Customers.....17	
Cash Inflows from the Disposal of Fixed Assets .....21	
Cash Inflows from the Issuance of Stock.....24	
Cash Inflows Through the Issuance of Long-term Debt ...23	
Cash Outflows for Payments of Dividends.....24	
Cash Outflows for Payments on Long-term Debt .....24	
Cash Outflows for the Acquisition of Treasury Stock .....25	
Cash Payments for Income Taxes .....20	
Cash Payments for Interest .....20	
Cash Payments for Other Operations Expenses .....19	
Cash Payments to Employees .....20	
Cash Payments to Suppliers.....19	
Cash Receipts from Dividends.....18	
Cash Receipts from Interest .....18	
Cash Used in the Acquisition of Fixed Assets .....21	
Combined Inventory and Accounts Payable Section .....15	
<b>F</b>	
Financing Activities of the Statement of Cash Flows - Detail .....23	
<b>I</b>	
Income Statement .....10	
Index .....29	
Indirect Statement of Cash Flows - Complete .....12	

Wrap-up Operating Activities of the Indirect Statement of Cash Flows - Detail ..... 17