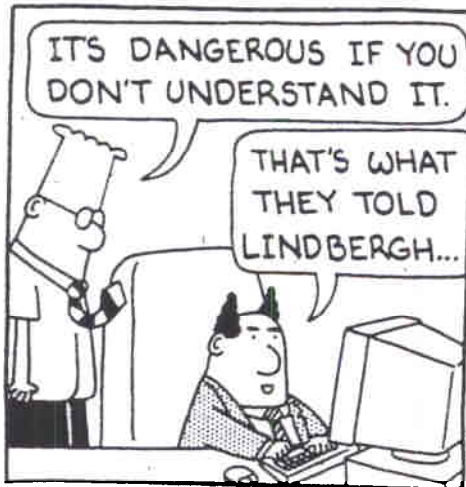
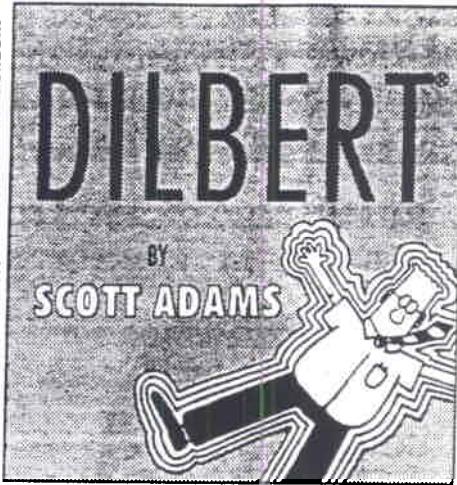
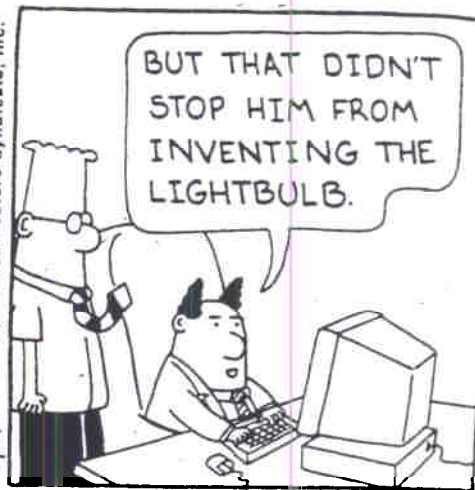


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***The
Statement
of
Cash Flows***

CASH FLOW STATEMENT

Required for publicly-owned companies

Other names include:

Statement of Cash Flows

Funds Flow Statement

Statement of Changes in Financial Position

Statement of Sources and Uses of Funds

Statement of Sources and Applications of Funds

Valuable Management Report

CASH FLOW STATEMENT EXAMPLE

(Figure 11-5, Page 257, Riggs)

	\$ Millions
Cash flows from operating activities	
Net earnings	\$25
Adjustments for noncash expenses	
Depreciation and amortization	33
Other, net	10
Net (increase) decrease in:	
Accounts and notes receivable	53
Inventories	33
Net increase (decrease) in:	
Accounts payable and accrued liabilities	<u>(42)</u>
	112
Cash flows from investing activities	
Investments in property, plant and equipment	(221)
Sale of property, plant and equipment	<u>109</u>
	(112)
Cash flows from financing activities	
Increase in long-term debt	65
Increase (decrease) in notes payable	(22)
Dividends	<u>(50)</u>
	(7)
Increase (decrease) in cash and cash equivalents	<u>(\$7)</u>

Primary Types of Cash Flows

Cash Flows Related to Operating Activities:

- Cash receipts and collections from sales of goods and services
- Cash receipts from earnings on investments in securities (interest and dividends)
- Payments to suppliers
- Payments to employees
- Payments for interest
- Payments for taxes

Cash Flows Related to Investing Activities:

- Cash receipts from the sale of securities of other companies
- Cash receipts from sales of productive assets
- Payments for the purchase of securities of other companies
- Payments at the time of purchase for the acquisition of productive assets

Cash Flows Related to Financing Activities:

- Proceeds from issuing capital stock or other equity securities
- Proceeds from issuing debt securities or obtaining loans (other than trade credit)
- Payments for reacquisition of capital stock or other equity securities of the entity
- Payments for the retirement of debt securities (excluding interest)
- Payments of principal on loans (other than trade payables)
- Payments of dividends

OPERATING CASH FLOWS:

--- ADD ---

- Depreciation of fixed assets, amortization of intangible assets, depletion charges pertaining to natural resources
- Increases in deferred income tax liability
- Amortization of debt discounts
- Decreases in accounts receivables, inventory, prepaid expenses
- Increases in accounts payable, some trade notes payable

--- SUBTRACT ---

- Decreases in deferred income tax liability
- Amortization of debt premiums
- Increases in accounts receivables, inventory, prepaid expenses
- Increases in accounts payable, some trade notes payable

INVESTING CASH FLOWS:

--- ADD ---

- Sale of operating assets (property, plant, and/or equipment)
- Sale of investments

--- SUBTRACT ---

- Purchase of investments
- Purchase of property, plant, and/or equipment

FINANCING CASH FLOWS:

--- ADD ---

- Increases in debt
- Increases in nontrade notes payable and bonds payable
- Increases in capital invested by owners (or stockholders, by issuing stock)

--- SUBTRACT ---

- Repayment of debt (principal)
- Decreases in nontrade notes payable and bonds payable
- Payment of dividends
- Repurchasing stock, or withdrawal of capital by owners

() = cash out
 no paren = cash in

Operating Cash Flows

- example from -
 Statements of Consolidated Cash Flows
 Motorola, Inc., 1994, in millions

Net earnings	1,560
Add (deduct) non-cash items:	
Depreciation	1,525
Net change in deferred income taxes (decrease)	(177)
Amortization of debt discount and issue costs	22
Gain on disposition of investments in affiliated companies	(9)
Change in assets and liabilities, net of effects of acquisitions and dispositions:	
Accounts receivable, net (increase)	(945)
Inventories (increase)	(806)
Other current assets (increase)	(328)
Accounts payable and accrued liabilities (increase)	1,134
Other assets (decrease)	595
Other liabilities (increase)	(19)
Net cash provided by operations	2,552

Investing Cash Flows

- example from -
 Statements of Consolidated Cash Flows
 Motorola, Inc., 1994, in millions

Acquisitions and advances to affiliated companies	(894)
Dispositions of investments in affiliated companies	23
Payments for property, plant and equipment	(3,320)
Other changes to property, plant and equipment (Increase) decrease in short-term investments	183
	40
Net cash used for investing activities	(3,968)

Operating Cash Flows

- example from -
Statements of Consolidated Cash Flows
Motorola, Inc., 1994, in millions

Net earnings	1,560
Add (deduct) non-cash items:	
Depreciation	1,525
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Accounts payable and accrued liabilities	1,134
Other assets	595
Other liabilities	(19)
Net cash provided by operations	2,552

Investing Cash Flows

- example from -
Statements of Consolidated Cash Flows
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Acquisitions and advances to affiliated companies	(894)
Dispositions of investments in affiliated companies	23
Payments for property, plant and equipment	(3,320)
Other changes to property, plant and equipment	183
(Increase) decrease in short-term investments	40
Net cash used for investing activities	(3,968)

Financing Cash Flows

- example from -
Statements of Consolidated Cash Flows
Motorola, Inc., 1994, in millions

Net increase (decrease) in short-term borrowings	517
Proceeds from issuance of debt	32
Repayment of debt	(190)
Issuance of common stock	1,061
Payment of dividends	(149)
Net cash provided by (used for) financing activities	1,271

STATEMENT OF CASH FLOWS EXAMPLE

(Figure 11-4, Page 256, Riggs)

<hr/>	
Cash flow from operating activities:	
Net income	\$ 8,215
Noncash items included in net income	
Depreciation and amortization	14,987
Deferred income taxes	(2,307)
Inventory reserves	3,473
Translation (gain) loss	(2,921)
Net (increase) decrease in:	
Accounts and contracts receivable	(7,420)
Inventories	(3,912)
Prepaid and other	273
Net increase (decrease) in:	
Accounts payable and accrued expenses	(11,814)
Income taxes payable	468
Other, net	<u>822</u>
Net cash provided (used) by operations	(136)
Cash flows from investing activities:	
Purchase of short-term investments and marketable securities, net	(40,310)
Maturities of short-term investments	45,176
Acquisition of property, plant and equipment	(8,329)
Acquisition of subsidiary, net of cash acquired	(1,668)
Capitalized software	<u>(1,725)</u>
Net cash used in investing	(6,856)
Cash flows from financing activities:	
Additions to long-term debt, net	19,780
Dividends	(7,886)
Stock issued under employee stock purchase and stock option plans	1,930
Payment for treasury stock	<u>(5,160)</u>
Net cash provided by investing	<u>8,664</u>
Net increase in cash and cash equivalents	1,672
Cash and cash equivalents at beginning of year	74,368
Cash and cash equivalents at end of year	<u>\$76,040</u>
<hr/>	

page 259, #11.5: Name two inflows (sources) of cash that do not appear as REVENUE on the INCOME STATEMENT.

- *Newly-invested capital will provide cash, but will not appear as Revenues on the Income Statement*
- *Funds resulting from taking out a loan or a note will provide cash, but will not appear as Revenues on the Income Statement*
- *Sale of assets will generate cash, but will not appear as Revenues on the Income Statement*

page 259, #11.6: Explain in simple terms why an INCREASE in Accounts Receivable balances between two dates represents a USE of cash during the interval,

and why a DECREASE in inventory balances between two dates represents a SOURCE of cash during the interval.

Accounts Receivables are Sales for which no Cash has yet been received, even though the organization is expending Cash in order to provide the goods and/or services. To the extent that Accounts Receivables increases, additional expenditures of Cash are made in order to provide the goods and/or services, with a concomitant reduction of the Cash available to the organization. The organization's operating source of funds is being used to "finance" its Accounts Receivables.

The acquisition of Inventory is accompanied by an expenditure of Cash. To the extent that Inventory declines between two time periods, it is being converted to goods for sale and is not being completely replaced. To the extent that Cash resulting from Sales is not being reinvested in Inventory, there is a concomitant increase in the Cash available for other purposes.

page 260, #11.2: The Josephson Corporation acquired new fixed assets in 1995 valued at \$54,000, realized a \$4,000 gain on the sale of fixed assets (which had an original cost of \$16,000 and a net book value at the time of sale of \$7,000), and showed an increase of \$27,000 in net fixed assets on its year-end balance sheet. Show the detail of sources and uses of cash for the year as related to fixed assets.

Journal Entries Required:

- “acquired new fixed assets . . . valued at \$54,000”

<i>Dr: Fixed Asset</i>	<i>\$ 54,000</i>	
<i>Cr: Cash</i>		<i>\$ 54,000</i>

- “realized a \$4,000 gain on the sale of fixed assets (. . . original cost of \$16,000, . . . book value . . . of \$7,000)”

\$16,000 original purchase, less \$7,000 book value, equals \$9,000 depreciation expense taken

<i>Dr: Cash</i>	<i>\$ 11,000</i>	
<i>Dr: Allowance for Depreciation</i>	<i>\$ 9,000</i>	
<i>Cr: Gain(Loss) - Disposition of Fixed Asset</i>		<i>\$ 4,000</i>
<i>Cr: Fixed Asset</i>		<i>\$ 16,000</i>

- “increase of \$27,000 in net fixed assets on its year-end balance sheet”

The net of the preceding two transactions yields

Debit Fixed Asset (\$54,000 - 16,000) = \$ 38,000

Credit Allowance for Depreciation = \$ 9,000

for a net difference of \$ 38,000 + 9,000 = \$ 47,000

*We are supposed to have a net increase of only \$ 27,000
which is a difference of \$ 20,000*

This could occur only if we

<i>Dr: Depreciation Expense</i>	<i>\$ 20,000</i>	
<i>Cr: Allowance for Depreciation</i>		<i>\$ 20,000</i>

- *Thus for the Josephson Corporation we conclude:*

Cash flows from operating activities

Adjustments for noncash expenses

Depreciation *\$ 20,000*

Cash flows from investing activities

Investments in equipment *(\$ 54,000)*

Sale of equipment *\$ 11,000*