

CONCEPT: INVESTING ACTIVITIES

- The **cash flows from investing activities** are focused on changes in _____

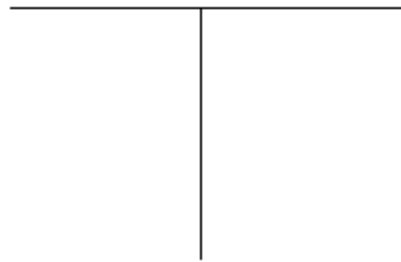
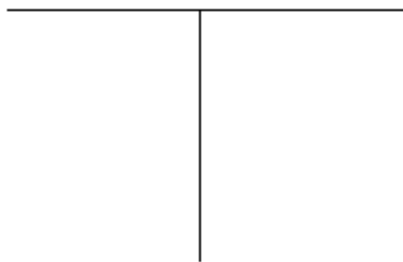
□ Note: the **indirect** or **direct** method only deal with operating activities

<u>Cash Flows from Investing Activities</u>	
Cash Inflows	Cash Outflows

- The journal entry used in the sale of a plant asset is crucial to completing the investing activities section:

Cost = \$20,000 Accum. Dep = \$14,000 Sell Price = \$8,000	Cost = \$20,000 Accum. Dep = \$14,000 Sell Price = \$4,000

- It is also important to be familiar with the flow of transactions through a PPE account and Accumulated Depreciation



EXAMPLE: Calculate ABC Company's net cash provided (used) by investing activities using the financial information on the previous page. Additional information includes:

1. The company sold equipment with a book value of \$7,000 (cost \$8,000, less accumulated depreciation of \$1,000) for \$4,000 cash.
2. The company issued \$110,000 of long-term bonds and used the proceeds to purchase land.
3. The company purchased new equipment totaling \$145,000.
4. The company issued common stock for \$20,000 cash.
5. The company declared and paid a \$29,000 cash dividend.

PRACTICE: Which of the following is a cash flow from investing activities?

- a) The purchase of merchandise for resale
- b) Sale of a piece of land no longer used in retail
- c) Payment of a note payable
- d) Issuance of common stock

PRACTICE: The cash received from the sale of factory equipment no longer in use would be reported in the cash flow statement as an:

- a) Operating Activity
- b) Investing Activity
- c) Financing Activity
- d) None of the Above

PRACTICE: Spooky Company is preparing its Statement of Cash Flows and gathered the following information:

1. Since the previous year: the cash account increased by \$35,000, land increased by \$40,000, Equipment decreased by \$15,000, Accumulated Depreciation – Equipment increased by \$6,000, and Bonds Payable increased by \$100,000
2. Depreciation expense for Equipment totaled \$16,000.
3. Equipment with a purchase price of \$15,000 was sold for a \$2,000 gain.
4. Spooky loaned \$24,000 to Witch Company signing a long-term note receivable.
5. Spooky declared and paid dividends of \$32,000. Net income was \$420,000.

What is Spooky Company's net cash flow from investing activities?