CONCEPT: INTRODUCTION TO STATEMENT OF CASH FLOWS

● The ***Statement of Cash Flows*** shows what affected the Cash account balance throughout the period

□ *Predictive Value* – Helps predict future cash flows based on past cash flows

□ *Evaluate Management* – Window into management's decision making surrounding cash flows

□ *Ability to Pay* – Determine the company's ability to pay interest and dividends

□ *Net Income and Cash Flow* – Investors have a clear picture of the relationship between net income and cash flow

● The ***Statement of Cash Flows*** organizes the cash flows into __________ main sections:

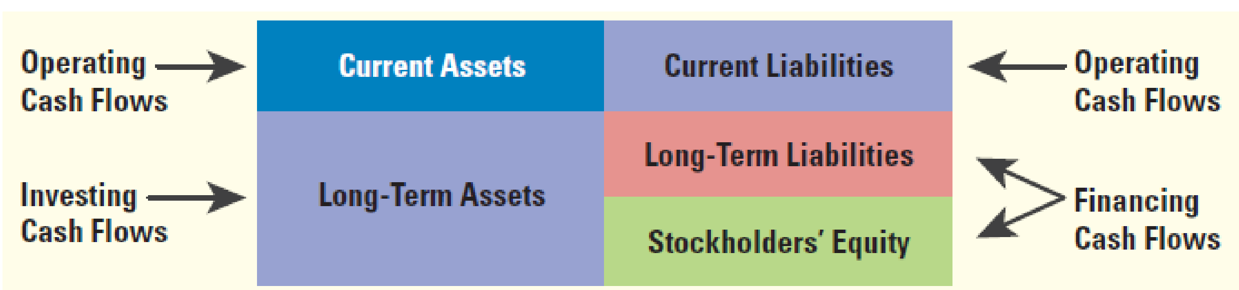
□ ***Operating Activities*** create revenues, expenses, gains, and losses resulting in net income.

- Represents the core business of the organization
- Successful businesses must generate positive cash flows from operating activities
- Operating activities are focused on changes in operating ____________________________

□ ***Investing Activities*** relate to the purchase and sale of ________________________

□ ***Financing Activities*** describe cash activities with investors and creditors

- Financing Activities are focused on _____________________ and __________________



PRACTICE: The purchase of equipment and the sale of equipment would be shown on the Statement of Cash Flows as:

a) Purchase: Investing Sale: Financing
b) Purchase: Operating Sale: Financing
c) Purchase: Investing Sale: Investing
d) Purchase: Operating Sale: Investing

- The ***Statement of Cash Flows*** also includes supplemental disclosures at the __________ of the statement:
    - □ ***Cash paid for interest***
    - □ ***Cash paid for taxes***
    - □ ***Significant Noncash Investing and Financing Activities*** shows important noncash transactions

E-GAMES, INC.
Statement of Cash Flows—Indirect Method
For the year ended December 31, 2012

Cash Flows from Operating Activities		
Net income	$42,000	
Adjustments for noncash effects:		
Depreciation expense	9,000	
Loss on sale of land	4,000	
Changes in current assets and current liabilities:		
Increase in accounts receivable	(7,000)	
Decrease in inventory	10,000	
Increase in prepaid rent	(2,000)	
Decrease in accounts payable	(5,000)	
Increase in interest payable	1,000	
Decrease in income tax payable	(2,000)	
Net cash flows from operating activities		$50,000
Cash Flows from Investing Activities		
Purchase of investment	(35,000)	
Sale of land	6,000	
Net cash flows from investing activities		(29,000)
Cash Flows from Financing Activities		
Issuance of common stock	5,000	
Payment of cash dividends	(12,000)	
Net cash flows from financing activities		(7,000)
Net increase (decrease) in cash		14,000
Cash at the beginning of the period		48,000
Cash at the end of the period		$62,000
Note: Noncash Activities		
Purchased equipment by issuing a note payable		$20,000