

Week 4 - DQ 2

What is included in each section of the statement of cash flows?

Response #1 The statement of cash flows has three sections: operating activities, financing activities, and investing activities.

The operating activities section includes anything that affects the cash account that also is included in determining net income on the Income Statement. Basically, this section of the statement of cash flows takes the income statement and, either directly or indirectly, turns it from accrual-based accounting to cash-based.

The financing activities section will include getting cash from creditors or investors and paying it back (paying back investors isn't necessarily paying it back but more so in the form of dividends and such).

The investing activities section will include giving and collecting loans and getting and disposing of investments and other long-term assets.

Response #2

Each statement of cash flows shows:

1. Operating activities- converts the items reported on the income statement from the accrual basis of accounting cash.
2. Investing activities- reports the purchase and sale of long term investments and property, plant and equipment.
3. Financing activities- reports the issuance and purchase of the company's own bonds and stock and the payment of dividends.
4. Supplemental information- reports the exchange of significant items that did not involve cash and reports the amount of income taxes paid and interest paid.

Response #3 The operating activities include the business every day operations. The operating activities areas shows if the business accounts receivables, inventory, and cash receipts are encountering abrupt changes. This section is a great tool for managers to watch closely any suspicious changes. The investing activities include the sale and purchase of the company long-term fixed assets. This area shows any changes in permanent assets, such as purchases or sales of equipment. This area in connection with the operating activities can be a good tool when a need or an opportunity arise. The financing activities include the borrowing and repayment of long-term liabilities. Usually this can be in the

form of debt such as bonds or equity such stock. In this area you can also find the dividends shareholders receive from the organization.

Response #4 Three types of activities under statement of cash flows:

1) cash flows from operating activities - cash flows from transactions affecting net income, such as purchase and sale of product and services.

2) cash flows from investing activities - cash flows from transactions affecting the investments in noncurrent assets, such as transactions involving the sale and purchase of fixed assets.

3) cash flows from financing activities - cash flows from transactions affecting the equity and debt of the company, such as issuance or retirement of equity and debt securities.