

Worksheet for Preparation of Statement of Cash Flows

| | Balance Sheet Changes | Operations | Investing | Financing |
|---|--------------------------|----------------|-----------|---------------|
| <i>(Increase)Decrease in Assets</i> | | | | |
| 1 Accounts Receivable | \$ | x | | |
| 2 Marketable Securities | | | x | |
| 3 Inventories | | x | | |
| 4 Other Current Assets | | x | | |
| 5 Investments in Securities | | | x | |
| 6 Property, Plant, and Equipment Cost | | | x | |
| 7 Accumulated Depreciation | | x | | |
| 8 Other Current Assets | | | x | |
| <i>Increase(Decrease) in Liab/Equities</i> | | | | |
| 9 Accounts payable | | x | | |
| 10 Notes Payable | | | | x |
| 11 Current Portion of Long-Term Debt | | | | x |
| 12 Other Current Liabilities | | x | | |
| 13 Long-Term Debt | | | | x |
| 14 Deferred Income Taxes | | x | | |
| 15 Other Noncurrent Liabilities | | | | x |
| 16 Common Stocks | | | | x |
| 17 Additional Paid-in Capital | | | | x |
| 18 Retained Earnings | | x (net income) | | x (dividends) |
| 19 Treasury Stock | | | | x |
| 20 Cash | | | | |

How to use the worksheet:

Assets:

For each item, take ending balance for prior year (beginning balance for current year) and subtract from ending balance for current year. If the change is positive, change the sign to (-) and place the figure in the Balance Sheet Changes column. If the change is negative, change the sign to positive (+), placing the resulting figure in the Balance Sheet Changes column.

Liabilities/Equities:

For each item, take ending balance for prior year (beginning balance for current year) and subtract from ending balance for current year. Place the figure in the appropriate Balance Sheet Changes column.

(No sign changes)

Then, take each figure in the Balance Sheet Changes column and repeat the number into the indicated columns: Operations, Investing, or Financing. Total each of these columns to obtain "Changes in Cash Flows from Operations," "... from Investing," and "...from Financing." Adding these three figures should produce a total change in Cash Flows equal to the current year change in cash.

See Word document "Classifying Changes.doc" for explanation of each category above.

We know that:

$$\text{Assets} = \text{Liabilities} + \text{Shareholders' Equity}$$

Similarly:

$$\Delta \text{ Assets} = \Delta \text{ Liabilities} + \Delta \text{ Shareholders' Equity}$$

Expanded:

$$\Delta \text{ Cash} + \Delta \text{ Noncash Assets} = \Delta \text{ Liabilities} + \Delta \text{ Shareholders' Equity}$$

Solving for in Δ Cash:

$$\Delta \text{ Cash} = \Delta \text{ Liabilities} + \Delta \text{ Shareholders' Equity} - \Delta \text{ Noncash Assets}$$

Classifying Changes in Noncash Balance Sheet Accounts

The statement of cash flows classifies the reasons for the change in cash as being either an operating, investing, or financing activity. The remaining task then is to classify the change in each noncash balance sheet account (right hand side of the last equation above).

1. **AR's:** Sales for the period + Beg. AR's - End AR's = Cash Collections for the period.
2. **Marketable Securities:** Because net income includes gains or losses on sales of marketable securities, we must subtract gains and add back losses to net income.
3. **Inventories:** Purchases + Beg Inv - End Inv = changes to cash from inventories.
4. **Other Current Assets:** includes prepayments for various operating costs.
5. **Investments in Securities:** Changes can be due to:
 - a. Acquisition of New Investments Investing (outflow)
 - b. Recognition of Income Using Equity Method Operations (subtraction)
 - c. Receipt of Divident from Investee Operations (inflow)
 - d. Sale of Investments Investing (inflow)
6. **Property, Plant and Equipment:** investing activities. Since net income includes gains or losses on sales of PP&E, we must subtract gains and add back losses.
7. **Accumulated Depreciation:** Depreciation recognized each period reduces net income but does not use cash. The sign is positive unless for some reason Accum Dep was positive to begin with due to something like a "recapture."
8. **Other Assets.** Patents, copyrights, goodwill, and similar assets.
9. **Accounts Payable.** Changes in cash in AP = Purchases + Beg. AP - End AP
10. **Notes Payable.** Short term borrowing from a bank or other financial activity. GAAP classifies as financing activity.
11. **Current Portion of Long-Term Debt.** Changes due to
 - a. reclassification of LT debt from a noncurrent liability to a current liability (i.e., the firm expects to repay within one year as of the end-of-the-period balance sheet) minus
 - b. the long-term debt actually repaid during the period. ("b." represents the cash outflow from this financing transaction.)
12. **Other Current Liabilities.** Obligations related to goods and services used in operations other than purchases of inventories...operating activities.
13. **Long-Term Debt.** Changes occur due to:
 - a. Issuance of new LT debt.
 - b. Reclassification of LT debt from a noncurrent to a current liability.
 - c. Early retirement of LT debt.
 - d. Conversion of LT debt to preferred or common stock.
14. **Deferred Income Taxes.** Income taxes currently payable = income tax expense + or - the change in deferred taxes during the period... Operating activity.
15. **Other Noncurrent Liabilities.** Includes unfunded pension or retirement benefit obligations, long-term deposits received, and other misc. long-term liabilities...financing activities.
16. **Common Stock.** Changes occur when a firm issues new stock or repurchases and retires outstanding stock and appear as financing activities.
17. **Additional Paid-in Capital.** Same as 16.
18. **Retained Earnings.** Increase by the amount of net income and decrease by the amount of dividends each period. Net income is an operating activity and dividends are a financing activity.
19. **Treasury Stock.** Repurchases of a firm's outstanding capital stock are a financing activity