What is the Statement of Cash Flows?

Worksheet

The statement of cash flows summarizes cash inflows and outflows across operating, investing, and financing activities, showing the net change in a company's cash balance for the period.

Questions

1. What are the three sections of the statement of cash flows?

A) Assets, liabilities, equity
B) Operating, investing, financing
C) Revenue, expenses, net income
D) Current, long-term, contingent

2. CFO = $30,000, CFI = $10,000, CFF = $5,000. What's the net change in cash?

A) $45,000
B) $25,000
C) $15,000
D) $35,000

3. Buying new equipment appears in which section?

A) Operating activities
B) Investing activities
C) Financing activities
D) It doesn't appear on the statement

4. Issuing new shares for cash appears in which section?

A) Operating activities
B) Investing activities
C) Financing activities
D) Retained earnings

5. A company has CFO = $50,000, CFI = $20,000 (equipment purchase), and CFF = $10,000 (debt repayment). Find the net change in cash.

6. Net income is $40,000. Depreciation was $5,000 (non-cash) and Accounts Receivable increased by $8,000. Find CFO using the indirect method.

7. A company reports CFO = $15,000, CFI = $30,000 (sold an old building), CFF = $25,000 (paid dividends). What's the net change in cash, and is the company healthy?

8. Define: What are the 3 sections of the cash flow statement?

9. Define: What is the formula for the statement of cash flows?

10. Define: What's the difference between the indirect and direct method?

Answer Key

1. B) Operating, investing, financing - The statement is organized into operating, investing, and financing activities.

2. B) $25,000 - 30,000 + (10,000) + 5,000 = 25,000.

3. B) Investing activities - Purchases of long-term assets are investing activities.

4. C) Financing activities - Raising capital through equity or debt is a financing activity.

5. Net change = 50,000 + (20,000) + (10,000) Net change = 20,000 Cash balance increased by $20,000 for the period.

6. Start with net income: 40,000 Add back depreciation (non-cash): +5,000 Subtract the increase in AR (cash not yet collected): 8,000 CFO = 40,000 + 5,000 8,000 = 37,000

7. Net change = 15,000 + 30,000 25,000 = 20,000 Cash rose $20,000, but most of it came from selling an asset (investing), not operations A closer look is needed - relying on asset sales rather than operating cash isn't sustainable long-term.

8. Operating, investing, and financing activities.

9. Net Change in Cash = CFO + CFI + CFF.

10. Indirect starts from net income and adjusts for non-cash items; direct lists actual cash receipts and payments - both apply only to CFO.