

SELF STUDY EXERCISE 9-1

The preparation of the statement of cash flows can be separated into a number of components including:

1. determining net cash flows from operating activities including the determination of the necessary adjustments to convert net income to net cash flow from operating activities
2. determining net cash flows from investing activities
3. determining net cash flows from financing activities

This exercise will concentrate on the first type of cash flow, specifically determining the necessary adjustments to convert net income to net cash flow from operating activities.

By using net income as the starting point for determining cash provided by operations, we are, in part, assuming that all of our sales increased cash. That assumption would not be correct if there has been a change in accounts receivable. We therefore adjust the net income figure for changes in accounts receivable, as well as changes in other current accounts. Other similar adjustments are also required.

For the items shown below indicate whether the item would be added (+) to, subtracted (-) from, or have no effect (0) on net income when calculating cash provided by operations. It is suggested that you cover the answer column until you choose an answer. Repeat the entire assignment until you are sure of each answer.

Column 1	Ans.	Column 2	Ans.
Increase in Non-Cash Equivalent Investments	0	Increase in Accounts Payable	+
Decrease in Prepaid Expense	+	Decrease in Merchandise Inventory	+
Loss on sale of Non-Cash Equivalent Investments	+	Decrease in Notes Payable (Loan)	0
		Decrease in Prepaid Revenue	-
		Increase in Wages Payable	+
Decrease in Supplies	+	Increase in Prepaid Expenses	-
Increase in Prepaid Revenue	+	Decrease in Wages Payable	-
Decreases in Taxes Payable	-	Increase in Interest Payable	+
Decrease in Accounts Receivable	+	Gain on Sale of Building	-
Increase in Merchandise Inventory	-	Loss on Sale of Equipment	+
Increase in Notes Payable (Loan)	0	Increase in Notes Receivable - Sale	-
Increase in Taxes Payable	+	Decrease in Interest Payable	-
Decrease in Notes Receivable (Loan)	0	Increase in Supplies	-
Decrease in Accounts Payable	-	Decrease in Prepaid Revenue	-
Increase in Accounts Receivable	-	Increase in Wages Payable	+
Loss on sale of Non-Cash Equivalent Investments	+	Decrease in Notes Receivable - Sales	+
Decrease in Prepaid Expenses	+	Increases in Notes Payable - Purch.	+
Increase in Temporary Investments	0	Decrease in Taxes Payable	-
Decreases in Supplies	+	Increase in Accounts Payable	+
		Decrease in Interest Payable	-

Column 1	Ans.	Column 2	Ans.
Increase in Merchandise Inventory	-	Increase in Notes Payable - Loan	0
Increase in Prepaid Expenses	-	Increase in Taxes Payable	+
Decrease in Non-Cash Equivalent Investments	0	Decrease in Accounts Payable	-
Decrease in Merchandise Inventory	+	Decrease in Wages Payable	-
		Increase in Prepaid Revenue	+
Gain on Sale of Non-Cash Equivalent Investments	-	Increase in Notes Receivable - Loan	0
Increase in Supplies	-	Decreases in Notes Payable - Purchase	-
Increase in Temporary Investments	0	Increase in Interest Payable	+
Increase in Accounts Receivable	-	Increase in Accounts Payable	+
		Decrease in Merchandise Inventory	+

SELF STUDY EXERCISE 9-2

In order to reveal information about an entity's cash flows, the entity will present a statement of cash flows. Shown below is the general format for a statement of cash flows:

- Cash flows from operating activities
- (A) Net Income
 - Adjustment to convert net income to net cash flow from operating activities
 - (B) Add:
 - (C) Deduct:
 - Net cash flow from operating activities
- Cash flows from investing activities
- (D) Add:
 - (E) Deduct:
 - Net cash provided/used by investing activities
- Cash flows from financing activities
- (F) Add:
 - (G) Deduct:
 - Net cash provided/used by financing activities
 - Net increase/decrease in cash
- (H) Schedule of Noncash Investing and Financing Activities
 - (I) Item is not presented in the statement of cash flows or the schedule of noncash investing and financing activities

For the items listed below indicate the location of the item in the statement of cash flows or the schedule of noncash investing and financing activities. It is suggested that you cover the answer column until you choose an answer. Repeat the entire assignment until you are sure of each answer.

Column 1	Ans.	Column 2	Ans.
Loss on the sale of long-term investments	B	Purchase of temporary investments	E
Dividends paid during the year	G	Net income for the year	A
Issuance of bonds payable at a discounts	D	Reacquisition or retirement of company's own stock	G
Increase in temporary investments	E	Sale of plant assets at book value	D
Increase in accounts receivable	C	Increase in accounts payable	B
Decrease in prepaid expenses	B	Decrease in merchandise inventory	B
Nonoperating loss on sale of temporary investments	B	Decrease in notes payable	G
		Decrease in temporary investments	D
		Increase in wages payable	B

Column 1	Ans.	Column 2	Ans.
Depreciation expense for the year	B	Purchase of long-term investments	E
Retirement of long-term notes payable	G	Purchase of plant assets	E
Loss on the sale of plant assets	B	Issuance of stock for plant assets	H
Proceeds from the sale of long-term investments	D	Dividends declared during the year	G
		Gain on the sale of plant assets	C
Decrease in supplies	B	Increase in prepaid expenses	C
Increase in prepaid revenue	B	Decrease in wages payable	C
Decrease in taxes payable	C	Increase in interest payable	B
Decrease in accounts receivable	B	Nonoperating gain on sale of temporary investments	C
Increase in merchandise inventory	C		
Proceeds from the issuance of stock for cash	F	Retirement of long-term bonds payable for cash	G
Proceeds from the sale of temporary investments	D	Proceeds from issuance of long-term notes payable	F
Depreciation expense for the year	B	Decrease in dividends payable	*G
Increase in notes payable	F	Increase in notes receivable - sale	C
Increase in taxes payable	B	Decrease in interest payable	C
Decrease in notes receivable - loan	D	Increase in supplies	C
Decrease in accounts payable	C	Decrease in prepaid revenue	C
Increase in dividends payable	*G	Purchase of temporary investments	E
Gain on the sale of long-term investments	C	Proceeds from the issuance of bonds at a premium	G
Nonoperating loss on the sale of temporary investments	**B	Nonoperating gain on the sale of temporary investments	**B
Purchase of plant assets	E	Loss on the sale of plant assets	B
Loss on the sale of long-term investments	B	Purchase of temporary investments	E
Dividends paid during the year	G	Net income for the year	A
Issuance of bonds payable at a discounts	D	Reacquisition or retirement of company's own stock	G
		Sale of plant assets at book value	D
Increase in temporary investments	E	Increase in accounts payable	B
Increase in accounts receivable	C	Decrease in merchandise inventory	B
Decrease in prepaid expenses	B	Decrease in notes payable	G
Nonoperating loss on sale of temporary investments	B	Decrease in temporary investments	D
		Increase in wages payable	B

Column 1	Ans.	Column 2	Ans.
Depreciation expense for the year	B	Purchase of long-term investments	E
Retirement of long-term notes payable	G	Purchase of plant assets	E
Loss on the sale of plant assets	B	Issuance of stock for plant assets	H
Proceeds from the sale of long-term investments	D	Dividends declared during the year	G
		Gain on the sale of plant assets	C
Decrease in supplies	B	Increase in prepaid expenses	C
Increase in prepaid revenue	B	Decrease in wages payable	C
Decrease in taxes payable	C	Increase in interest payable	B
Decrease in accounts receivable	B	Nonoperating gain on sale of	
Increase in merchandise inventory	C	temporary investments	C

* Used to adjust dividends declared to determine cash dividends paid

** May also be used to adjust decrease in temporary investments to determine proceeds from sale of temporary investments