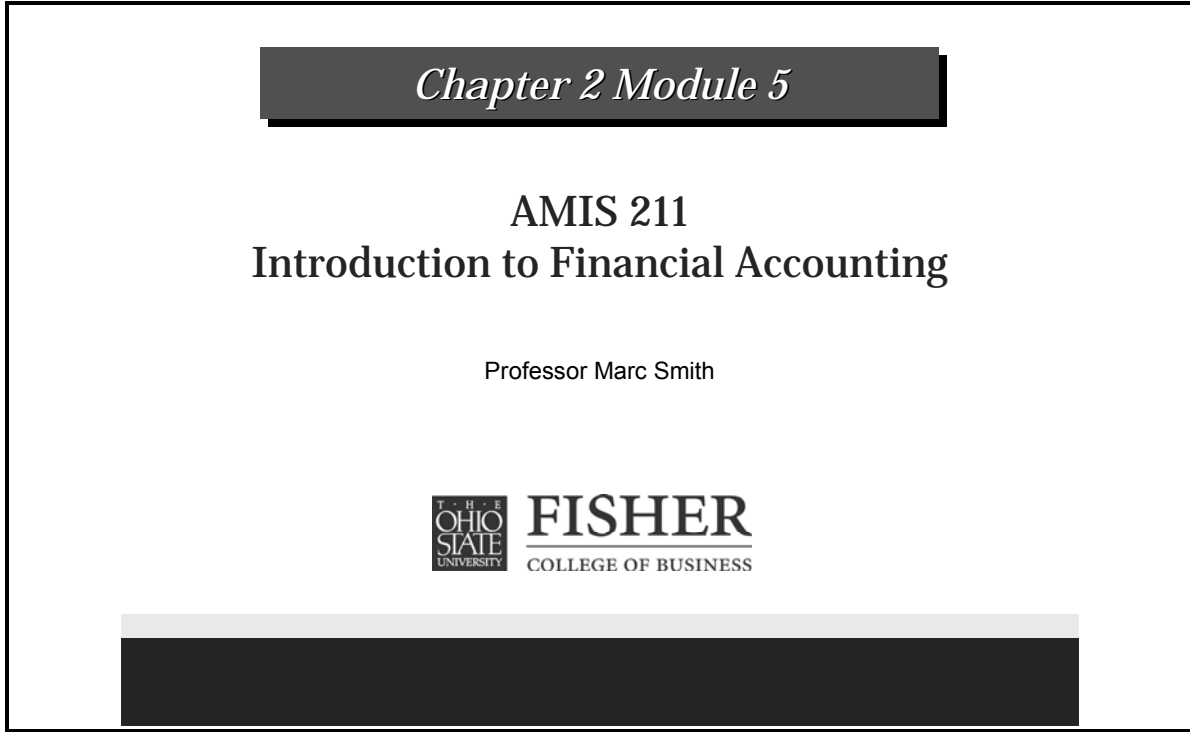


Chapter 2, Module 5 – Financial Statements

Slide 1

A rectangular box with a black border containing the slide content. At the top is a dark grey horizontal bar with the text "Chapter 2 Module 5" in white, italicized font. Below this is the text "AMIS 211" and "Introduction to Financial Accounting" in a serif font. Underneath is "Professor Marc Smith" in a smaller serif font. At the bottom center is the logo for Fisher College of Business at Ohio State University, which includes a small square logo with "T H B OHIO STATE UNIVERSITY" and the text "FISHER COLLEGE OF BUSINESS" to its right. At the very bottom of the box is a dark grey horizontal bar.

Chapter 2 Module 5

AMIS 211
Introduction to Financial Accounting

Professor Marc Smith



Hi everyone. Welcome back.

In this module, let's talk about the fourth financial statement: the Statement of Cash Flows.

And, let's go ahead and get right into it.

Let's move to the next slide.

Slide 2

Chapter 2 Module 5: Statement of Cash Flows

STATEMENT OF CASH FLOWS

The statement of cash flows simply shows the changes in cash for a period of time (the same period of time as that covered by the income statement)

It provides information about:

- **cash receipts (inflows)**
- **cash payments (outflows)**

We can define the Statement of Cash Flows as the financial statement that shows the changes in cash.

It simply shows how much cash we have and from the different sources and how much cash we spent and on what we spent it on.

So, it is a financial statement that shows the changes in cash for a period of time. Just like the Income Statement and the Statement of Owners' Equity, it also covers a time period—January through December.

So, this Statement of Cash Flows is going to give us information on the cash receipts—the, what we call: “inflows of cash.” And, it is going to give us information on cash payments; what are referred to as “cash outflows.”

You can kind of think of the Cash Flow Statement as your check book register.

You look at what you have in your checkbook register and you see all the money that you brought in; say, from your job or whatever, and, of course, if you are anything like me, you have a lot more of these: all of the money that

you spent on all of the different items; your electric bill, your utility bill, and whatnot.

It is a very similar idea here. It simply shows the changes in cash for a period of time.

Let's go to the next slide.

Slide 3

Chapter 2 Module 5: Statement of Cash Flows

These cash inflows and outflows are categorized as either:

- **Operating Activities**
- **Investing Activities**
- **Financing Activities**

And, you can see that the Cash Flow Statement that shows the inflows and outflows of cash.

It takes those inflows and outflows and puts them into one of three (3) different categories.

These categories are referred to as 1) Operating Activities, Investing Activities, and Financing Activities.

And, here, in this particular module, all we want to do is just sort-of gain a comfort level for what the Cash Flow Statement is and what sorts of items

we find on the Cash Flow Statement. And then, be able to categorize appropriately the different inflows and outflows.

A little later in this course we will talk a lot more in-depth about the Cash Flow Statement and do a lot of calculations. That will be a little bit later.

For now, we are just trying to get the basics down.

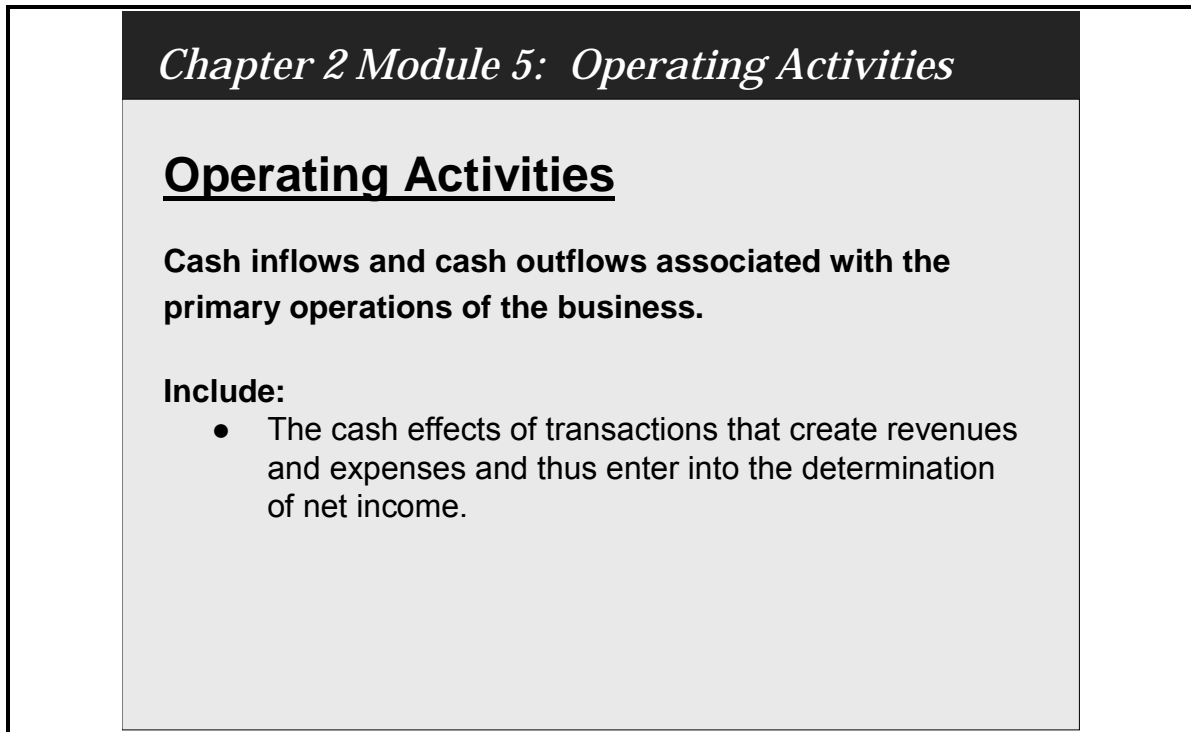
And, one key idea is:

The Statement of Cash Flows divides the inflows and outflows into Operating, Investing, and Financing activities.

We'll spend the rest of this module and talk about these different activities.

Let's go to the next slide.

Slide 4

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Chapter 2 Module 5: Operating Activities

Operating Activities

Cash inflows and cash outflows associated with the primary operations of the business.

Include:

- The cash effects of transactions that create revenues and expenses and thus enter into the determination of net income.

And, let's start with our Operating Activities.

These represent cash inflows and outflows that are associated with the primary activities of the company—the day to day operations of the business.

These Operating Activities include the cash effects of transactions that impact Net Income.

Saying it a slightly different way: the cash effects of transactions that create revenues and expenses and thus enter into the determination of Net Income.

These are the cash inflows and outflows that relate to our day-to-day operations.

Let's go to the next slide...

Slide 5

Chapter 2 Module 5: Operating Activities

Examples of Operating Activities

- **Cash inflows:**
 - From sale of goods or services
- **Cash outflows:**
 - To suppliers for inventory
 - To employees for services
 - To government for taxes
 - To lenders for interest

And, let's look at some examples of 1) Operating Activities.

The most common example of a cash inflow that would be considered Operating is:

Cash received from your customers; cash received from them for either selling them goods or providing services to them.

Some common examples of cash outflows include:

Cash paid to suppliers to purchase inventory. You purchase the inventory. And then, when it is sold, that purchase cost becomes Cost of Goods Sold (CGS). The cash you pay to buy it is: an Operating outflow.

Cash paid to your employees as their salaries is: an Operating outflow.

Cash that you pay to the government in the form of taxes is: an Operating outflow.

Cash paid to the Creditors or Lenders as the form of interest is another example of an Operating outflow.

So, your Operating Activities relate to the inflows and outflows of your day-to-day, or primary, operations. And, they relate to the transactions that impact Net Income (i.e. Revenues and Expenses).

Let's go to the next slide.

Slide 6

Chapter 2 Module 5: Investing Activities

Investing Activities

Cash inflows and cash outflows associated with the purchase or sale of long-term assets such as P-P-E.

Examples of Investing Activities

- **Cash inflows:**
 - From the sale of assets such as land, buildings, and equipment
- **Cash outflows:**
 - From the purchase of assets such as land, buildings, and equipment

And, let's take a look at the second category of cash flows: 2) our Investing Activities.

Investing Activities are cash inflows and outflows related to buying and selling long-term assets such as P-P-E, Property, Plant, and Equipment.

So, just based on that definition, you ought to be able to give me examples of Investing Activities.

One common example of an inflow is: Cash that we receive from selling long-term assets such as equipment.

So, if you sell off a piece of equipment or you sell off a building, the cash that you get from that sale would be categorized as an Investing Activity.

You have to just turn that around and you have your cash outflow that is an Investing Activity. It is a little more common than the inflows.

It is: Cash that you pay to go out and purchase long-term assets.

So, when you go out and you purchase machinery or equipment or buildings or land or whatever, the cash that you pay to buy those things is all treated as Investing Activities—Investing cash outflows.

Operating Activities relate to the cash flows from the day-to-day operations of the business. Investing Activities are cash flows related to buying and selling long-term assets.

Go to the next slide with me.

Slide 7

Chapter 2 Module 5: Financing Activities

Financing Activities

Cash inflows and cash outflows associated with the sources of funding the business.

Include:

- Obtaining cash from and paying cash to:
 - creditors
 - stockholders (owners)

Let's look at the third category of cash flows: 3) Financing Activities.

Financing Activities are cash inflows and outflows associated with the sources of funding the business.

HUH?

The sources of funding the business...What are those? What could be the sources that we have of funding the business?

Well, take a look here.

These things include: obtaining cash from and paying cash to two (2) very important groups.

1) Creditors.

We get money from Creditors and we have to pay them back. They provide funding for the business.

And, 2) our Owners, our Stockholders:

We get cash from them when they buy stock. And, we pay cash out to them in the form of say, a dividend.

So, Financing Activities relate to the cash inflows and outflows from our funding sources.

Saying it a slightly different way: the cash that we get from and pay to our Owners and our Creditors.

Let's go to the next slide.

Slide 8

Chapter 2 Module 5: Operating Activities

Examples of Financing Activities

- **Cash inflows:**
 - From sale of company's own stock (common stock)
 - From borrowing money (i.e., a bank loan)
- **Cash outflows:**
 - To stockholders as dividends
 - To creditors for repayment of funds borrowed

And, let's list out some examples of Financing Activities.

I think I have already said a couple of them.

Common cash inflows that are Financing Activities include: Cash from selling our own stock. That is cash from our Owners. The Owners give the company cash when they buy our stock. That is cash received from Owners.

We also have Cash received from Creditors. This is when we go out and we borrow money.

When we go to the bank and we say: "Hey, Huntington! I need to borrow some money from you." Huntington says, "Okay! Sign this note and we will give you the cash." The money that we borrow is: a Financing inflow.

A couple of common Financing cash outflows—expenditures of cash:

Cash paid to stockholders as dividends. When we give our stockholders a dividend we are returning funds to them; that is a Financing outflow.

And, of course, even though it would be nice if we did not have to, when we borrow money from the bank or any other lender, they do expect for us to pay it back.

So, the Cash paid to our Creditors as repayment of loans is a common Financing cash outflow.

Like I said a little bit earlier in the module, what you want to be comfortable with right now in regards to the Cash Flow Statement is just the basic ideas.

What are the Investing, Financing, and Operating cash flows? And, what are certain examples of each?

We will talk a lot more in depth a little later about the Cash Flow Statement.