

Inflows:

1. Receipts from customers represent approximately 83% of total cash inflow.
2. Proceeds from common stock sales approximate 11% of total cash inflow.
3. Proceeds from sales of land approximate 6% of total cash inflow.

Outflows:

1. Payments to suppliers represent approximately 58% of total cash outflow.
2. Retirement of bonds payable approximates 19% of total cash outflow.
3. Dividends paid approximate 13% of total cash outflow.

Summary

The statement of cash flows provides cash flow information that is critical for users to make informed decisions. The statement of cash flows should be reviewed for several time periods in order to determine the major sources of cash and the major uses of cash.

The ratios related to the statement of cash flows are the following:

The formula for **operating cash flow/current maturities of long-term debt and current notes payable** is:

$$\frac{\text{Operating Cash Flow}}{\text{Current Maturities of Long-Term Debt and Current Notes Payable}}$$

The formula for **operating cash flow/total debt** is:

$$\frac{\text{Operating Cash Flow}}{\text{Total Debt}}$$

The formula for **operating cash flow per share** is:

$$\frac{\text{Operating Cash Flow} - \text{Preferred Dividends}}{\text{Diluted Weighted Average Common Shares Outstanding}}$$

The formula for **operating cash flow/cash dividends** is:

$$\frac{\text{Operating Cash Flow}}{\text{Cash Dividends}}$$

Questions

- Q 10-1** If a firm presents an income statement and a balance sheet, why is it necessary that a statement of cash flows also be presented?
- Q 10-2** Into what three categories are cash flows segregated on the statement of cash flows?
- Q 10-3** Using the descriptions of assets, liabilities, and stockholders' equity, summarize the changes to these accounts for cash inflows and changes for cash outflows.
- Q 10-4** The land account may be used only to explain a use of cash, but not a source of cash. Comment.
- Q 10-5** Indicate the three techniques that may be used to complete the steps in developing the statement of cash flows.
- Q 10-6** There are two principal methods of presenting cash flow from operating activities—the direct method and the indirect method. Describe these two methods.
- Q 10-7** Depreciation expense, amortization of patents, and amortization of bond discount are examples of items that are added to net income when using the indirect method of presenting cash flows from operating activities. Amortization of premium on bonds and a reduction in deferred taxes are examples of items that are deducted from net income when using the indirect method of presenting cash flows from operating activities. Explain why these adjustments to net income are made to compute cash flows from operating activities.
- Q 10-8** What is the meaning of the term *cash* in the statement of cash flows?
- Q 10-9** What is the purpose of the statement of cash flows?
- Q 10-10** Why is it important to disclose certain noncash investing and financing transactions, such as exchanging common stock for land?
- Q 10-11** Would a write-off of uncollectible accounts against allowance for doubtful accounts be disclosed on a cash flow statement? Explain.