

Statement of Cash Flows

Pratt, Financial Accounting 7e, Chapter 14

To a business, cash is oxygen – if a business runs out it will perish!

Purpose of SCFs: Explain the change in cash! What were the key inflows and outflows during the period?

Types of Cash Flows:

- Net Operating Cash Flows:
 - Cash received from customers
 - Cash paid for inventory, compensation, supplies, interest, and services
- Net Investing Cash Flows:
 - Cash received from the sale of investments and fixed assets
 - Cash paid for the purchase of investments and fixed assets
- Net Financing Cash Flows:
 - Cash received from issuing bonds and stocks
 - Cash paid to pay off bonds (principal portion), repurchase stock and dividend payments

Structure (in order):

- Operating activities
- Investment activities
- Financing activities

Operating Activities Format:

- Two formats are permitted to determine the net inflow or outflow from operating activities:
 - Direct
 - Indirect
- Note if the direct method is used a separate schedule presenting the indirect method must be disclosed
- Indirect is significantly more popular

Noncash Investing and Financing Activities:

- Must be disclosed
- Examples:
 - Assets acquired in exchange for debt
 - Conversion of debt for equity

SEAGATE TECHNOLOGY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 29, 2007	Fiscal Year Ended June 30, 2006	Fiscal Year Ended July 1, 2005
	(In millions)		
OPERATING ACTIVITIES			
Net income	\$ 913	\$ 840	\$ 707
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	851	612	464
Stock-based compensation	128	90	2
Deferred income taxes	(365)	23	11
Allowance for doubtful accounts receivable	40	—	—
Redemption charges on 8% Senior Notes due 2009	19	—	—
In-process research and development	4	—	—
Tax benefit from exercise of stock options	—	(44)	—
Non-cash portion of restructuring, and other	19	—	—
Other non-cash operating activities, net	17	12	8
Changes in operating assets and liabilities:			
Accounts receivable	34	(190)	(403)
Inventories	106	(113)	18
Accounts payable	(391)	91	368
Accrued expenses, employee compensation and warranty	(465)	120	142
Accrued income taxes	8	54	13
Other assets and liabilities	25	(38)	98
Net cash provided by operating activities	<u>943</u>	<u>1,457</u>	<u>1,428</u>
INVESTING ACTIVITIES			
Acquisition of property, equipment and leasehold improvements, net	(906)	(1,008)	(691)
Proceeds from sale of fixed assets	55	—	—
Purchases of short-term investments	(322)	(3,220)	(4,796)
Maturities and sales of short-term investments	997	3,528	4,465
Net cash and cash equivalents acquired from Maxtor	—	297	—
Acquisitions, net of cash and cash equivalents acquired	(178)	(28)	—
Other investing activities, net	(48)	(130)	(47)
Net cash used in investing activities	<u>(402)</u>	<u>(561)</u>	<u>(1,069)</u>
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	1,477	—	—
Repayment of long-term debt	(5)	(340)	(3)
Redemption of 8% Senior Notes due 2009	(400)	—	—
Redemption premium on 8% Senior Notes due 2009	(16)	—	—
Proceeds from exercise of employee stock options and employee stock	219	118	90
Dividends to shareholders	(212)	(155)	(122)
Tax benefit from exercise of stock options	—	44	—
Repurchases of common shares	(1,526)	(399)	—
Net cash used in financing activities	<u>(463)</u>	<u>(732)</u>	<u>(35)</u>
Increase in cash and cash equivalents	78	164	324
Cash and cash equivalents at the beginning of the period	910	746	422
Cash and cash equivalents at the end of the period	<u>\$ 988</u>	<u>\$ 910</u>	<u>\$ 746</u>
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	\$ 88	\$ 38	\$ 48
Cash paid for income taxes, net of refunds	38	15	9

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L.L. Beeno
 Operating Section – Statement of Cash Flows (Direct Method)
 For the Year Ended December 31, 2003

Cash from operating activities:		
Cash receipts from revenues	\$ 45,900	
Cash payments for inventory	(26,400)	
Cash payments for wages.....	(5,100)	
Cash payments for insurance	(3,900)	
Cash payments for interest	(1,600)	
Cash payments for taxes	<u>(1,200)</u>	
Net cash increase (decrease) due to operating activities.....		\$ 7,700

L.L. Beeno
 Operating Section – Statement of Cash Flows (Indirect Method)
 For the Year Ended December 31, 2003

Cash flows from operating activities:		
Net income.....		\$ 5,500
Adjustments:		
Depreciation expense	\$ 3,300	
Increase in accounts receivable	(1,100)	
Decrease in inventory	300	
Decrease in prepaid insurance	300	
Decrease in accounts payable.....	(1,700)	
Decrease in wages payable.....	<u>1,100</u>	
Total adjustments.....		<u>2,200</u>
Net cash increase due to operating activities.....		<u>\$ 7,700</u>

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Direct method

Bower Manufacturing Industries
Statement of Cash Flows
For the Year Ended December 31, 2006

Cash flows from operating activities:		
Cash collections from sales and accounts receivable	\$ 90,000 ^a	
Cash paid to suppliers for inventory.....	(90,000)	
Cash paid for wages.....	(12,000)	
Cash paid for supplies.....	(5,000)	
Cash paid for interest	<u>(5,000)</u>	
Net cash decrease due to operating activities		\$ (22,000)
Cash flows from investing activities:		
Proceeds from sale of fixed assets	\$ 125,000 ^b	
Proceeds from sale of marketable securities	<u>51,000^c</u>	
Net cash increase due to investing activities		176,000
Net cash flow from financing activities		<u>0</u>
Net increase in cash		\$ 154,000
Beginning cash balance, January 1, 2006		<u>593,000</u>
Ending cash balance, December 31, 2006		<u>\$ 747,000</u>

^a Cash collections include changes in both Accounts and Notes Receivable.

^b Proceeds from sale of fixed assets is computed as follows:

Cost of machinery and equipment sold.....	\$ 150,000	
Less: Related accumulated depreciation	<u>15,000</u>	
Book value of machinery and equipment sold	\$ 135,000	
Less: Loss on sale of fixed assets (per income statement).....	<u>10,000</u>	
Proceeds from sale of fixed assets	<u>\$ 125,000</u>	

^c Proceeds from sale of marketable securities is computed as follows:

Decrease in marketable securities.....	\$ 55,000	
Less: Loss on sale of marketable securities (per income statement)	<u>4,000</u>	
Proceeds from sale of marketable securities	<u>\$ 51,000</u>	

P14–16 Concluded

Indirect method

Bower Manufacturing Industries
Statement of Cash Flows
For the Year Ended December 31, 2006

Cash flows from operating activities:		
Net income.....		\$ 37,000
Adjustments:		
Decrease in inventory.....	\$ 25,000	
Depreciation.....	30,000	
Decrease in discount on bonds payable	5,000	
Decrease in supplies inventory	2,000	
Loss on sale of fixed assets	10,000	
Loss on sale of marketable securities	4,000	
Increase in accounts receivable.....	(50,000)	
Increase in notes receivable.....	(50,000)	
Decrease in accounts payable	<u>(35,000)</u>	
Total adjustments		<u>(59,000)</u>
Net cash decrease due to operating activities.....		\$ (22,000)
Cash flows from investing activities:		
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