

## FA Module 5: The Cash Flow Statement (overview 3<sup>rd</sup> edition)

(The attached PDF file has better formatting.)

(Readings from the third 3<sup>rd</sup> edition of the Robinson text.)

The preceding modules do not have complex computations. But financial statements articulate: double-entry book-keeping causes specific relations among the income statement, the balance sheet, and the cash flow statement. For many items, the entries on any two of these statements determine the entry on the third.

We cover the cash flow statement in two modules:

- ! Module 5 deals with the structure of the cash flow statement.
- ! Module 6 covers the articulation of the financial statements.

Reading: chapter 6

- ! § 2: components and format of the cash flow statement, *excluding*
  - " sub-section 2.3.1 (an indirect-format cash flow statement prepared under IFRS)
  - " sub-section 2.3.2 (a direct-format cash flow statement prepared under IFRS)
  - " sub-section 2.3.3 (illustrations of cash flow statements prepared under U.S. GAAP)
- ! § 3: the cash flow statement: linkages and preparation

Chapter 6, §3 is the reading for Module 6. Articulation of the financial statements is confusing for some students, so read this section twice: once for module 5 and once for module 6. Work the textbook examples and practice problems in module 6, after reading the material twice.

Know the classification of cash flows and noncash activities

- ! Operating activities
- ! Investing activities
- ! Financing activities
- ! Differences between IFRS and U.S. GAAP

Final exam problems may ask to compute the operating cash flow, investing cash flow, or financing cash flow. For IFRS cash flows, the exam problem may also specify the firm's classification.

Know the direct vs indirect cash flow formats for reporting operating cash flow. The textbook has illustrations of both direct and indirect methods from firms using GAAP vs IFRS. The final exam problems are based on the examples in the textbook (not the illustrations of actual financial statements) and the practice problems on the discussion forum.

Working through the illustrations helps you understand the various methods used in practice. The final exam tests the procedures in Exhibit 8 (Acme Corporation).

The final exam problems are like the end of chapter problems 9, 10, 11, 12, 14, 15, 16, 17, 18, 22, and 23. The logic is straight-forward, but the sign of the computation (addition vs subtraction) depends on assets vs liabilities and on income vs expense. The practice problems on the discussion forum give you extensive guidance for the final exam problems. Review the textbook examples and exhibits in Module 5, but work the end of chapter problems and practice problems after module 6. About ten points on the final exam relate to articulation of the financial statements.