

10. Operating, Investing, and Financing Activities

Cash inflows from operating activities consist of receipts from customers for providing goods and services, and cash received from interest and dividend income (as well as the proceeds received upon the sale of “trading securities”). Cash outflows consist of payments for inventory, employee salaries and wages, taxes, interest, and other normal business expenses (and the cost of “trading securities” purchased). To generalize, cash from operating activities is generally linked to those transactions and events that enter into the determination of income. However, another way to view “operating” cash flows is to include anything that is not an “investing” or “financing” cash flow as described below.

10.1 Investing Activities

Cash inflows from investing activities result from items such as the sale of stock and bond investments (other than “trading”), disposal of long-term productive assets, and receipt of principal repayments on loans made to others. Cash outflows from investing activities include payments made to acquire long-term assets or long-term investments (other than “trading”) in other firms, loans made by the entity to others, and similar items.

10.2 Financing Activities

Cash inflows from financing activities relate to the proceeds received when a company issues its own stock or bonds, borrowings under mortgage notes and loans, and so forth. Cash outflows for