

13. Indirect Approach to Presenting Operating Activities

As an alternative to the direct approach, companies may present an indirect statement of cash flows. The indirect approach is mostly a repackaging of the information found in the direct approach. It is so named because the “reconciliation” replaces the direct presentation of the operating cash flows. The indirect approach is presented on the following page. Except for the shaded areas, this statement is identical to the direct approach: The first shaded area reflects the substitution of the operating cash flow calculations. The second shaded area reflects a rule that the indirect approach must be supplemented with information about cash paid for interest and taxes (these amounts are found in the operating activities section of the direct approach).

EMERSON CORPORATION Statement of Cash Flows (Indirect Approach) For the Year Ending December 31, 20X5		
Cash flows from operating activities:		
Net income		\$ 1,000,000
Add (deduct) noncash effects on operating income		
Depreciation expense	\$ 120,000	
Gain on sale of land	(150,000)	
Increase in accounts receivable	(250,000)	
Decrease in inventory	40,000	
Increase in accounts payable	70,000	
Decrease in wages payable	<u>(30,000)</u>	<u>(200,000)</u>
Net cash provided by operating activities		\$ 800,000
Cash flows from investing activities:		
Sale of land	\$ 750,000	
Purchase of equipment	<u>(150,000)</u>	
Net cash provided by investing activities		600,000
Cash flows from financing activities:		
Proceeds from issuing stock	\$ 80,000	
Dividends on common	(50,000)	
Repayment of long-term loans	<u>(900,000)</u>	
Net cash used in financing activities		<u>(870,000)</u>
Net increase in cash		\$ 530,000
Cash balance at January 1, 20X5		<u>170,000</u>
Cash balance at December 31, 20X5		<u><u>\$ 700,000</u></u>
Noncash investing/financing activities:		
Issued preferred stock for building		<u>\$ 300,000</u>
Supplemental information:		
Cash paid for interest		\$ 100,000
Cash paid for income taxes		300,000