



## 14. Using a Worksheet to Prepare a Statement of Cash Flow

Given enough time and careful thought, one can generally prepare a statement of cash flows by putting together a rough shell that approximates the statements illustrated throughout this chapter, and then filling in all of the bits and pieces that can be found. Ultimately, the correct solution is reached when the change in cash is fully explained. This is like working a puzzle without reference to a supporting picture. But, complex tasks are simplified by taking a more organized approach. To that end, consider the value of a worksheet for preparing the statement of cash flows.

The worksheet examines the change in each balance sheet account and relates it to any cash flow statement impacts. Once each line in the balance sheet is contemplated, the ingredients of the cash flow statement will be found! A sample worksheet for Emerson is presented on the following page. In this worksheet, the upper portion is the balance sheet information, and the lower portion is the cash flow statement information. The change in each balance sheet row is evaluated and keyed to a change(s) in the cash flow statement. When you have explained the change in each balance sheet line, you should have accumulated (in the lower portion) the information necessary to prepare a statement of cash flows.

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Emerson Corporation/Cash Flow Statement Worksheet/For the Year Ending Dec. 31, 20X5				
	20X4	Debit	Credit	20X5
<b>Debits</b>				
Cash	\$ 170,000	(a) \$ 530,000		\$ 700,000
Accounts receivable	600,000	(b) 250,000		850,000
Inventory	220,000		(c) \$ 40,000	180,000
Land	1,400,000		(d) 600,000	800,000
Building	700,000	(e) 300,000		1,000,000
Equipment	<u>900,000</u>	(f) 150,000		<u>1,050,000</u>
	<u>\$ 3,990,000</u>			<u>\$ 4,580,000</u>
<b>Credits</b>				
Accumulated depreciation	\$ 360,000		(g) 120,000	\$ 480,000
Accounts payable	200,000		(h) 70,000	270,000
Wages payable	50,000	(i) 30,000		20,000
Long-term loan payable	1,800,000	(j) 900,000		900,000
Preferred stock	-		(e) 300,000	300,000
Common stock (\$1 par)	900,000		(k) 10,000	910,000
Paid-in capital in excess of par	300,000		(k) 70,000	370,000
Retained earnings	<u>380,000</u>	(l) 50,000	(m) 1,000,000	<u>1,330,000</u>
	<u>\$ 3,990,000</u>			<u>\$ 4,580,000</u>
<b>Cash flows from operating activities:</b>				
Net income		(m) 1,000,000		
Depreciation expense		(g) 120,000		
Gain on sale of land			(d) 150,000	
Increase in accounts receivable			(b) 250,000	
Decrease in inventory		(c) 40,000		
Increase in accounts payable		(h) 70,000		
Decrease in wages payable			(i) 30,000	
<b>Cash flows from investing activities:</b>				
Sale of land		(d) 750,000		
Purchase of equipment			(f) 150,000	
<b>Cash flows from financing activities:</b>				
Proceeds from issuing stock		(k) 80,000		
Dividends on common			(l) 50,000	
Repayment of long-term loan			(j) 900,000	
<b>Noncash investing/financing activities:</b>				
Issue preferred stock for building		(e) 300,000	(e) 300,000	
Increase in cash			(a) <u>530,000</u>	
		<u>\$ 4,570,000</u>	<u>\$ 4,570,000</u>	

Specific explanations for each keyed item are found in the table below. The cash flow statement explanations are color coded such that blue is the final balancing step, red is cash outflow, black is cash inflow, and green is special.

	Upper/Balance Sheet	Lower/Cash Flow Statement
(a)	debit (increase) cash	credit to balance - the remaining effect as net positive cash flow
(b)	debit (increase) accounts receivable	credit reflecting negative cash effect via receivables increase
(c)	credit (decrease) inventory	debit reflecting positive cash effect via inventory reduction
(d)	credit (decrease) land	credit gain and debit sale of land reflecting source of cash
(e)	debit building (increase)/credit preferred (increase)	debit and credit reflecting noncash investing/financing
(f)	debit (increase) equipment	credit reflecting use of cash to purchase equipment
(g)	credit (increase) accumulated depreciation	debit reflecting noncash adjustment of income
(h)	credit (increase) accounts payable	debit reflecting positive cash effect via increased payables
(i)	debit (decrease) wages payable	credit reflecting negative cash effect via payables reduction
(j)	debit (decrease) loan payable	credit reflecting use of cash via loan repayment
(k)	credit (increase) stock and paid-in capital	debit reflecting source of cash via stock issue
(l)	debit (decrease) retained earnings	credit reflecting use of cash for dividends
(m)	credit (increase) retained earnings	debit reflecting source of cash via income