

CONVERTING INDIRECT TO DIRECT – TYPE 3

Prepare a cashflow statement using direct method, based on the increase/decrease in balances of asset/liability items & income statement numbers of previous example

SOLUTION:

Increase or decrease in assets/liabilities		Cash collection from sales	+ Sales - increase in a/c receivables + decrease in a/c receivables	\$ 99,000
Increase in accounts receivables	\$ 1,000	Cash paid to a/c payables	- COGS - increase in inventory + decrease in inventory + increase in a/c payable - decrease in a/c payable	(\$ 34,000)
Decrease in inventory	\$ 2,000	Cash paid for wages	- Wage expense for the period + increase in wages payable - decrease in wages payable	(\$ 8,500)
Increase in accounts payable	\$ 4,000	Cash paid for interest	- interest expense for period + increase in interest payable - decrease in interest payable	(\$ 500)
Decrease in wages payable	\$ 3,500	Cash paid for taxes	- Provision for tax + increase in taxes payable and DTL - decrease in taxes payable and DTL	(\$ 14,000)
Increase in interest payable	\$ 500			
Increase in tax payable	\$ 1,000			
Increase in deferred tax payable	\$ 5,000			
		CASHFLOW FROM OPERATIONS		\$ 42,000

CONVERTING INDIRECT TO DIRECT – TYPE 4

Prepare a cashflow statement using direct method, based on the income statement nos. and complete indirect statement is given (and only mention changes in asset/liability with +/- sign | there is no mention of whether there is increase or decrease in balance)

SOLUTION:

	CFS presented using indirect method		Cash collection from sales	+ Sales – increase in a/c receivable	\$ 99,000
	Just identify, whether it is increase/decrease in asset or liability and then apply the shortcut.	Net Income	\$ 37,000	Cash paid to a/c payables	- COGS + decrease in inventory + increase in a/c payable
The shortcut won't work if you cannot identify whether there is increase/decrease in asset or liability	Less: Gain from sale of Land	(\$ 10,000)	Cash paid for wages	- Wage expense for the period + increase in wages payable - decrease in wages payable	(\$ 8,500)
	Add: Depreciation	\$ 7,000	Cash paid for interest	- interest expense for period + increase in interest payable - decrease in interest payable	(\$ 500)
	Change in accounts receivables	(\$ 1,000)	Cash paid for taxes	- Provision for tax + increase in taxes payable and DTL - decrease in taxes payable and DTL	(\$ 14,000)
	Change in inventory	\$ 2,000			
	Change in accounts payable	\$ 4,000			
	Change in wages payable	(\$ 3,500)			
	Change in interest payable	\$ 500			
	Change in tax payable	\$ 1,000			
	Change in deferred tax payable	\$ 5,000			
	CFO	42,000			
			CASHFLOW FROM OPERATIONS	\$ 42,000	

CONVERTING INDIRECT TO DIRECT – TYPE 5

Prepare a cashflow statement using direct method, based on the changes in asset/liability with +/- sign & income statement of previous example

Change in assets/liabilities	
Change in accounts receivables	\$ 1,000
Change in inventory	(\$ 2,000)
Change in accounts payable	\$ 4,000
Change in wages payable	(\$ 3,500)
Change in interest payable	\$ 500
Change in tax payable	\$ 1,000
Change in deferred tax payable	\$ 5,000

For info presented in above form only – remember that:
Change in asset or liability = closing bal. – opening bal.
✓ If asset or liability bal. increases → closing bal. > opening bal.
→ change will be a **positive** number
✓ If asset or liability bal. decreases → closing bal. < opening bal.
→ change will be a **negative** number

SOLUTION:

Cash collection from sales	+ Sales – increase in a/c receivable + decrease in a/c receivables	\$ 99,000
Cash paid to a/c payables	- COGS + decrease in inventory + increase in a/c payable	(\$ 34,000)
Cash paid for wages	- Wage expense for the period + increase in wages payable - decrease in wages payable	(\$ 8,500)
Cash paid for interest	- interest expense for period + increase in interest payable - decrease in interest payable	(\$ 500)
Cash paid for taxes	- Provision for tax + increase in taxes payable and DTL - decrease in taxes payable and DTL	(\$ 14,000)
CASHFLOW FROM OPERATIONS		\$ 42,000

182

CONTENTS DEVELOPED BY PROF. VINIT MEHTA

93245 98369 VINIT.MHT@GMAIL.COM

A SHORTCUT TO REMEMBER – ITS CORRECT BUT TOO COMPLICATED

To determine cash collected or paid:

+' sign before revenue item

-' sign before expense item

AND

+' sign if there is increase in asset balance

OR

+' sign if there is decrease in asset balance

AND

+' sign if there is increase in liability balance

OR

-' sign if there is decrease in liability balance

Cash collection from sales	+ Sales - increase in a/c receivables + decrease in a/c receivables
Cash paid to a/c payables	- COGS - increase in inventory + decrease in inventory + increase in a/c payable - decrease in a/c payable
Cash paid for wages	- Wage expense for the period + increase in wages payable - decrease in wages payable
Cash paid for interest	- interest expense for period + increase in int. payable - decrease in int. payable
Cash paid for taxes	- Provision for tax + increase in tax payable - decrease in tax payable + increase in DTL - decrease in DTL

184

CONTENTS DEVELOPED BY PROF. VINIT MEHTA

93245 98369 VINIT.MHT@GMAIL.COM