THE STATEMENT OF CASH FLOWS (INDIRECT METHOD)

**Note**: Investing and Financing sections are the same for Indirect and Direct Method

COMPANY NAME
STATEMENT OF CASH FLOWS (PARTIAL)
PERIOD COVERED

Cash flows from operating activities

Net income $65,500

**Adjustments to reconcile** net income to net cash provided by operating activities:

- Depreciation expense (always added) $5,000
- **Decrease in inventory** (1) 10,000
- **Increase in income taxes payable** (2) 4,500

\[ \text{Increase in accounts receivable (3)} = (20,000) \]
\[ \text{Decrease in accounts payable (4)} = (10,000) \]

Net cash flow from operating activities $55,000

*Try to notice the pattern:

Add:  
- **D CA** = Decrease in current assets (1)
- **I CL** = Increase in current liabilities (2)

\[ \text{CREASE IN Ai RIES} \]

Less:  
- **I CA** = Increase in current assets (3)
- **D CL** = Decrease in current liabilities (4)

Example of how the chart works:

<table>
<thead>
<tr>
<th>Description</th>
<th>1998</th>
<th>1997</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Inventory</td>
<td>90,000</td>
<td>100,000</td>
<td>Decrease in Current Assets/ <strong>D CA</strong></td>
</tr>
<tr>
<td>(2) Income Taxes Payable</td>
<td>7,500</td>
<td>3,000</td>
<td>Increase in Current Liabilities/ <strong>I CL</strong></td>
</tr>
<tr>
<td>(3) Accounts Receivable</td>
<td>60,000</td>
<td>40,000</td>
<td>Increase in Current Assets/ <strong>I CA</strong></td>
</tr>
<tr>
<td>(4) Accounts Payable</td>
<td>20,000</td>
<td>30,000</td>
<td>Decrease in Accounts Payable/ <strong>D CL</strong></td>
</tr>
</tbody>
</table>

Just Remember:

Add:  
- Decreases in Current Assets
- Increases in Current Liabilities

Less:  
- Increases in Current Assets
- Decreases in Current Liabilities