

Operating Activities – Changes in Current Assets and Current Liabilities

Increase in Current Asset	-	(subtract)	}	Assets Opposite	All Otters
Decrease in Current Asset	+	add			
Increase in Current Liability	+	add	}	Liabilites Same	Love Swimming
Decrease in Current Liability	-	(subtract)			

Note:

Current portion of loans are **ALWAYS** a Financing Activity

They are **NEVER** an Operating Activity



Bella Corporation
Income Statement
For the Year Ended December 31, Current Year

Sales		\$ 1,000,000
Cost of Goods Sold		<u>500,000</u>
Gross Margin		500,000
Operating Expenses		
Wage Expense	\$ 210,000	
Depreciation Expense	10,000	
Rent Expense	36,000	
Office Expense	<u>26,000</u>	
Total Operating Expenses		<u>282,000</u>
Operating Income		218,000
Other Revenues & <Expenses>		
Interest Expense		<u>(8,000)</u>
Income Before Taxes		210,000
Tax Expense		<u>60,000</u>
Net Income		<u>\$ 150,000</u>
Earnings Per Share		<u>\$ 1.88</u>
(\$150,000/((50,000*4/12)+(80,000*4/12)+(110,000*4/12)))		

Start the Operating Activities Section with Net Income and then add back depreciation expense.

Depreciation expense reduced the net income, but did not involve an outflow of cash.

Bella Corporation
Balance Sheet
December 31,

Assets	Bella Corporation			Liabilities	Bella Corporation		
	Current	Prior	Increase (Decrease)		Current	Prior	Increase (Decrease)
Current Assets				Current Liabilities			
Cash	\$ 70,000	\$ 15,000		Accounts Payable	\$ 54,000	\$ 35,000	\$ 19,000
Accounts Receivable	55,000	35,000	\$ 20,000	Wages Payable	6,000	10,000	\$ (4,000)
Inventory	45,000	50,000	\$ (5,000)	Taxes Payable	9,000	5,000	\$ 4,000
Total Current Assets	170,000	100,000		Interest Payable	1,000		\$ 1,000
				Current Maturities of			
Fixed Assets				Long-Term Debt	20,000	20,000	\$ -
Equipment	250,000	200,000	\$ 50,000	Total Current Liabilities	90,000	70,000	
Less: Accumulated Depreciation	(30,000)	(20,000)		Long-Term Debt			
Subtotal	220,000	180,000		Note Payable	60,000	80,000	\$ (20,000)
Land	60,000		\$ 60,000	Total Liabilities	150,000	150,000	
Net Fixed Assets	280,000	180,000		Owners' Equity			
				Common Stock	110,000	50,000	\$ 60,000
Other Assets				Retained Earnings	200,000	80,000	
Security Deposit	10,000		\$ 10,000	Total Owners' Equity	310,000	130,000	
Total Assets	\$ 460,000	\$ 280,000		Total Liabilities and Owners' Equity	\$ 460,000	\$ 280,000	



Cash is what you are trying to reconcile. Do not include cash in operating activities



The difference in Accumulated Depreciation is the Depreciation Expense. Depreciation Expense was added back to Net Income in Operating Activities. Do **NOTHING** with Accumulated Depreciation.

Bella Corporation
Statement of Cash Flows
For the Year Ended December 31, Current Year

Operating Activities	
Net Income	\$ 150,000
Adjustments to Net Income:	
Add: Depreciation Expense	10,000
Changes in:	
Increase in Accounts Receivable	(20,000)
Decrease in Inventory	5,000
Increase in Accounts Payable	19,000
Decrease in Wages Payable	(4,000)
Increase in Taxes Payable	4,000
Increase in Interest Payable	1,000
Cash Provided by Operating Activities	165,000
 Investing Activities	
Purchases of Equipment	(50,000)
Purchase of Land	(60,000)
Payment of Security Deposit	(10,000)
Cash Used for Investing Activities	(120,000)
 Financing Activities	
Payments on Note Payable	(20,000)
Issuances of Common Stock	60,000
Payment of Dividends	(30,000)
Cash Used for Financing Activities	10,000
Net Cash Flow	55,000
Beginning Cash	15,000
Ending Cash	\$ 70,000
 Supplemental Cash Flow Information	
Cash payments for interest	\$ 7,000
Cash payments for income taxes	56,000

Bella Corporation
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For the Year Ended December 31, Current Year

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Cash payments for interest	\$ 7,000	
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	Assets	Current	Bella Corporation Balance Sheet December 31, Prior	Increase (Decrease)
Current Assets				
Cash		\$ 70,000	\$ 15,000	
Accounts Receivable		55,000	35,000	\$ 20,000
	ASSETS OPPOSITE			

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← **ASSETS OPPOSITE** →

Bella Corporation
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For the Year Ended December 31, Current Year

Bella Corporation
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December 31,

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	Liabilities	Current	Prior	Increase (Decrease)
Current Liabilities				
Accounts Payable		\$ 54,000	\$ 35,000	\$ 19,000



Bella Corporation
Statement of Cash Flows
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Current Liabilities			
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Wages Payable	6,000	10,000	\$ (4,000)



LIABILITIES SAME

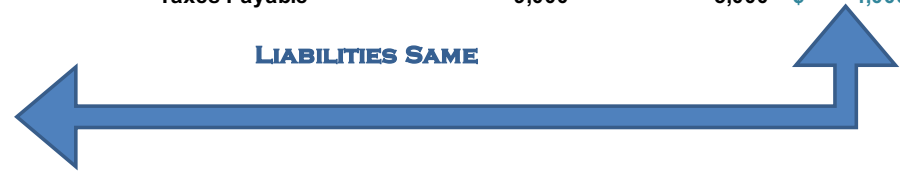
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Current	Bella Corporation Balance Sheet December 31, Prior	Increase (Decrease)
Fixed Assets		
Equipment	250,000	200,000 \$ 50,000

ASSETS OPPOSITE



Bella Corporation
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	Current	Bella Corporation Balance Sheet December 31, Prior	
Fixed Assets			Increase (Decrease)
Land	60,000	\$	60,000
	ASSETS OPPOSITE		



Bella Corporation
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	Current	Bella Corporation Balance Sheet December 31, Prior	Increase (Decrease)
Other Assets			
Security Deposit	<u>10,000</u>	\$	<u>10,000</u>

ASSETS OPPOSITE



Bella Corporation
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Bella Corporation			
Balance Sheet			
December 31,			
	Current	Prior	Increase (Decrease)
Long-Term Debt			
Note Payable	<u>60,000</u>	<u>80,000</u>	\$ (20,000)

LIABILITIES SAME



Bella Corporation
Statement of Cash Flows
For the Year Ended December 31, Current Year

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Bella Corporation			
Balance Sheet			
December 31,			
	Current	Prior	Increase (Decrease)
Owners' Equity			
Common Stock	110,000	50,000	\$ 60,000

OWNERS' EQUITY SAME



Bella Corporation
Statement of Cash Flows
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December 31,

Investing Activities	
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Purchase of Land	(60,000)
Payment of Security Deposit	(10,000)
Cash Used for Investing Activities	(120,000)

	Current	Prior
Owners' Equity		
Retained Earnings	200,000	80,000

Financing Activities	
Payments on Note Payable	(20,000)
Issuances of Common Stock	60,000
Payment of Dividends	(30,000)
Cash Used for Financing Activities	10,000

Beginning Retained Earnings	80,000
Plus Net Income	150,000
Minus Ending Retained Earnings	(200,000)
Dividends	30,000

Net Cash Flow 55,000

Beginning Cash 15,000
Ending Cash \$ 70,000

Supplemental Cash Flow Information

Cash payments for interest	\$ 7,000
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	Taxes	Interest
Expense, Current Year	60,000	8,000
Plus Payable, Prior Year	5,000	0
Minus Payable, Current Year	(9,000)	(1,000)
Cash Payments	56,000	7,000

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