Statement of Cash Flows (Indirect Method) Master Cheat Sheet

Operating, Investing & Financing Activities, Working Capital Adjustments & Non-Cash Items

1. OPERATING ACTIVITIES: RECONCILING NET INCOME TO OPERATING CASH

Adjustment Item	Direction	Underlying Accounting Reason
Net Income (Starting Point)	Base Cash	Accrual basis profit from the Income Statement.
+ Depreciation & Amortization Expense	**+ ADD**	Non-cash expense reduced Net Income; no cash actually left.
+ Loss on Disposal of Assets	**+ ADD**	Non-operating accounting loss reduced Net Income; cash is in Investing.
– Gain on Disposal of Assets	**– DEDUCT**	Non-operating gain inflated Net Income; cash proceeds are in Investing.
– Increase in Current Operating Assets (e.g. AR, Inv)	**– DEDUCT**	Cash tied up in unpaid invoices or unsold inventory.
+ Decrease in Current Operating Assets	**+ ADD**	Cash collected from prior receivables or inventory liquidated.
+ Increase in Current Operating Liabilities (AP, Accruals)	**+ ADD**	Expenses recognized on Income Statement but cash not yet paid.
– Decrease in Current Operating Liabilities	**– DEDUCT**	Cash disbursed to reduce accounts payable or accrued liabilities.

2. INVESTING & FINANCING ACTIVITIES OVERVIEW

Activity Classification	Typical Cash Inflows (+)	Typical Cash Outflows (–)
Investing Activities (Long-Term Assets)	• Sale of PP&E / Equipment • Sale of debt/equity of other entities • Collection of principal on loans made	• Purchase of PP&E (CapEx) • Purchase of securities of other firms • Loans made to other entities
Financing Activities (Debt & Equity)	• Issuance of Common/Preferred stock • Issuance of Bonds / Notes Payable • Short-term or long-term borrowing	
Non-Cash Financing Disclosures	Must be disclosed in footnotes / supplemental schedule: e.g. purchasing equipment via direct note payable, converting debt to common equity.	

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